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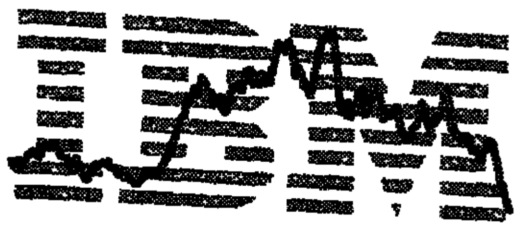
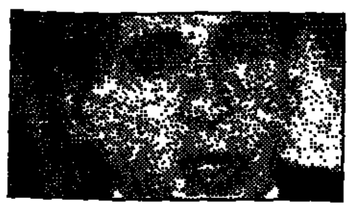
call Tyson

Big and blue
Is IBM doomed to decline?
Page 17



Mickey Kantor
What to expect from Clinton's trade man
Page 6



Cream of the crop
The latest drugs for skin disorders
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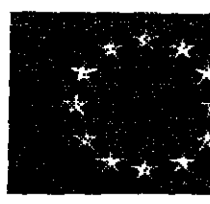

FINANCIAL TIMES

Europe's Business Newspaper

TUESDAY JANUARY 19 1993 D8523A

Repsol share offer will bolster Spanish budget

State-controlled Spanish oil and gas group Repsol is to raise at least $500m through an international issue of shares. The move, likely to go ahead within three months, will reduce the government's ownership of the company to less than 50 per cent. The government is planning several disposals of state shareholdings this year to reduce its deficit. Page 19

Rhône-Poulenc sale: The French government is to sell around 10 per cent (6m shares) of Rhône-Poulenc, France's flagship chemical group. The shares sale, postponed last month as a result of erratic stock market conditions, will go ahead today at FFr500 ($92.60) a share.

Loan to Italy approved: European Community finance ministers approved an Ecu8bn ($9.9bn) balance of payments loan to Italy to help government efforts to control the country's huge budget shortfall. Page 18

Malaysian government takes on sultans

A constitutional crisis is looming in Malaysia as prime minister Mahathir Mohamad (left) introduces to parliament constitutional amendments to limit the powers of the country's nine sultans, who are hereditary rulers and take it in turn to act as king. Page 5

Nine killed in US train crash: Up to nine people died when two commuter trains collided at Gary, Indiana, 25 miles from Chicago.

Honda strengthens Europe ties: Japanese car and motorcycle manufacturer Honda strengthened its position in the European motorcycle market with an alliance with Piaggio of Italy, Europe's biggest maker of motorcycles. Page 6

Brother Industries in the red: Extreme pressure on Japan's machinery makers left office equipment and sewing machine manufacturer Brother Industries with a full-year operating loss of Y1.27bn ($10.8m), the first since its listing 31 years ago. Page 22

German social spending cuts: The German economy's slowdown will lead to a rise in the government's net borrowing requirement and cuts in tax allowances and social spending. Page 18

Yves Saint Laurent shares suspended: Trading in shares of French fashion and cosmetics company Yves Saint Laurent and of Elf-Sanofi, pharmaceuticals and beauty products arm of the state-owned Elf-Aquitaine oil group, were suspended amid speculation that YSL might be selling a significant share stake to Elf-Sanofi. Page 19

Japan's carmakers rethink strategy: A sharp fall in the Japanese car market is forcing manufacturers to consider alliances which could lead to a consolidation of the industry. Page 19

Virgin says BA's note inadequate: Virgin Atlantic Airways said it had received "an extremely brief confidential note" from British Airways which fell short of the the "act of good faith" it was seeking from its UK rival to avoid taking legal action against it in the US. Virgin last week won a libel action in the UK against BA. Page 19

Qantas told to lose jobs: An efficiency review of Australian carrier Qantas Airways recommends the shedding of 1,835 jobs – 9 per cent of its workforce. Last month, British Airways won the right to buy 25 per cent of the government-owned airline for A$665m (US$459m). Page 22

Avalanche kills villagers: Nine people died when an avalanche hit a village in north-east Turkey. Up to 61 others were feared trapped.

UK retail sales disappoint: Brisk retail trade in the UK shortly before Christmas failed to lift December sales above those of a year ago, according to the Confederation of British Industry, the UK employers' organisation. Page 8

Corsicans bomb homes: Corsican nationalists set off 32 bombs at holiday homes belonging to continental French families and foreigners on the French island. The attacks caused extensive damage but no casualties.

Managers on the line: Boris Fedorov, Russian deputy prime minister in charge of the economy, warned industrialists that managers who did not improve their companies' performances would be fired. Page 2

■ STOCK MARKET INDICES

FT-SE 100:	2,763.1	(-2.0)
Yield	4.40	
FT-SE Eurotrack 100	1,097.15	(+7.57)
FT-A All-Share	1,340.25	(same)
Nikkei	16,617.24	(+101.64)
New York: lunchtime		
Dow Jones Ind Ave	3,269.77	(-1.35)
S&P Composite	436.37	(-0.78)

■ US CLOSING RATES

Federal Funds:	closed	(2 15/16%)
3-mo Treas Bills: Yld	closed	(3.003%)
Long Bond	closed	(103 1/2)
Yield	closed	(7.343%)

■ LONDON MONEY

3-mo Interbank	7%	(7 1/16%)
Liffe long gilt future:	Mar 99 11/32	(Mar 100 1/8)

■ NORTH SEA OIL (Argus)

Brent 15-day (Mar)	$17.45	(17.6)

■ Gold

New York Comex (Jan)	$328.8	(327.0)
London	$328.15	(327.85)

■ STERLING

New York lunchtime:		
$	1.551	
London:		
$	1.5495	(1.53)
DM	2.5025	(same)
FFr	8.4725	(8.4525)
SFr	2.285	(2.29)
Y	194.75	(193)
£ Index	81.6	(81.2)

■ DOLLAR

New York lunchtime:		
DM	1.6115	
FFr	5.454	
SFr	1.4767	
Y	125.535	
London:		
DM	1.6165	(1.6355)
FFr	5.4675	(5.525)
SFr	1.4695	(1.4975)
Y	125.65	(126.1)
$ Index	66.4	(66.7)

Tokyo close Y 125.82

Austria	Sch30	Greece	Dr300	Lux	LFr60	Qatar	QR12.00		
Bahrain	Din1.250	Hungary	Ft162	Malta	Lm0.60	S.Arabia	SR11		
Belgium	BFr60	Iceland	IKr180	Morocco	MDh13	Singapore	S$4.10		
Bulgaria	Lw25.00	India	Rs40	Neth	Fl 3.75	Spain	Pta200		
Cyprus	C£1.00	Indonesia	Rp3800	Nigeria	Naira20	Sweden	SKr15		
Czech	Kcs35	Israel	Shk5.50	Norway	NKr16.00	Switz	SFr3.20		
Denmark	DKr15	Italy	L2700	Oman	OR1.50	Syria	S£30.00		
Egypt	E£4.50	Jordan	JD1.50	Pakistan	Rs35	Thailand	Bht50		
Finland	FM12	Korea	Won 2500	Philippines	Pso45	Tunisia	Din1.250		
France	FFr8.50	Kuwait	Fils.600	Poland	Zl 22,000	Turkey	L6000		
Germany	DM3.30	Lebanon	US$1.25	Portugal	Es215	UAE	Dh11.00		

Iraq says Baghdad raid killed 21 ■ Kuwait to ask France and UK to send troops

US renews attack on Iraqi missiles

By Jurek Martin in Washington, James Whittington in Baghdad and David White and Philip Stephens in London

COALITION AIRCRAFT led by the US yesterday bombed missile sites in the south and north of Iraq in response to President Saddam Hussein's continued defiance of UN resolutions.

The raid in the southern air-exclusion zone was designed to take out surface-to-air missiles left undamaged by last Wednesday's attacks and came less than 24 hours after US cruise missiles hit a nuclear weapons facility south of Baghdad.

In the north, where on Sunday an Iraqi MiG-23 was shot down after venturing into the no-fly zone, Iraqi radar reportedly "locked on" to US and British aircraft, usually a sign that missiles may be fired.

A US F-15 fighter jet apparently shot down an Iraqi MiG-25 fighter yesterday over northern Iraq, US defence officials said later. If confirmed, it would be the third Iraqi jet shot down by American warplanes for alleged violations of no-fly zones in northern and southern Iraq since December 27.

Initial reports in Washington did not attempt to assess the success of the latest missions, the

PAGE 4
■ Legal basis for action unclear
■ Opposition to Saddam forms complicated mosaic
■ British unease over drift towards greater conflict
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■ Editorial Comment

third time in six days that the coalition forces have attacked Iraq. A White House statement said the action in the south had been taken in response "to Iraqi moves to reconstitute its surface-to-air missile systems". It said any further provocation by Iraq will be dealt with "forcefully and without warning".

US president-elect Bill Clinton, in the midst of the celebrations of his inauguration tomorrow, said he fully supported efforts to bring the Iraqi leader "to full compliance with all UN Security Council resolutions". Addressing diplomats, he said: "I ask each of you to emphasise this point to your governments".

An Iraqi statement said 21 people had been killed in the latest allied attack. Iraq continued to insist that the exclusion zones were illegal. Baghdad radio quoted vice-president Taha Yassin Ramadan as saying the US, Britain and France were trying to divide up Iraq, which was a violation of its sovereignty.

Iraqi retaliation has so far been minimal. Air raid sirens sounded in Dhahran and Kuwait yesterday on rumours that Iraq had launched some of its remaining Scud missiles, but the Defence Department in Washington said there was no evidence of this.

Kuwait said yesterday that it was planning to ask Britain and France to send troops as a further deterrent against Iraqi attacks amid growing concern over possible reprisals for the allied raids on Iraq. A battalion-strength US force arrived in Kuwait last week.

Russia, reflecting its unease over increasing western military action against Iraq, has called for a new meeting of the UN Security Council.

A foreign ministry statement repeated the Russian leadership's view that Iraq, by flouting UN resolutions on the Gulf, had provoked the crisis in which its civilians had been killed. But a Russian official described the air strikes as "counter-productive" and unlikely to bring Iraq "to common sense".

King Hussein of Jordan said he was deeply angered by the repeated allied attacks on Iraq. But he said he remained an "old friend of the United States" and was looking forward to having contacts with Mr Clinton.

"It is certainly a moment of sorrow and anger for all of us ... We are very very sorry that conditions have deteriorated to this point," King Hussein said.

The Arab League also expressed dismay at the attacks and rejected the use of force as a means of resolving conflicts.

The RAF said its Tornados inflicted heavy damage on a command-and-control bunker at al-Najaf, which straddles the 32nd parallel on the border of the southern no-fly zone.

Initial indications were that all three bombs from one of its Tornados had hit the target. But a second Tornado returned to base with its 1,000lb laser-guided bombs after failing to positively identify of the target.

Mr Malcolm Rifkind, the British defence secretary, warned of the possibility of further strikes but faced visible unease among MPs about the allies' long-term strategy to deal with Mr Saddam.

Alert to the sensitivities in the Arab world and to the concern at Westminster, Mr Rifkind stressed that the latest strikes had been strictly proportionate to Iraq's defiance of UN resolutions.

Downing Street revealed that UK prime minister, Mr John Major, had spoken to President George Bush six times over the weekend but denied that Britain was restraining a more belligerent approach by the US.

The Pentagon confirmed last night that the Rashid hotel in Baghdad, where two employees were killed, had been hit by a cruise missile. However, it said the missile had been shot down by Iraqi anti-aircraft fire.

Mr Hamed Youssef Hummai, the information minister, said Iraq was prepared to enter talks but would not be terrorised by air strikes.

In New York, a UN spokesman confirmed that six Iraqi police posts had been withdrawn from the territory which reverted to Kuwait under the newly demarcated border.

President-elect Bill Clinton addresses Georgetown University, Washington Foreign policy pledge, Page 18

UN experts say target made N-weapon parts

By Alan Friedman in New York and Mark Nicholson in Kuwait City

INTERNATIONAL experts yesterday confirmed that the military-industrial plant near Baghdad which was hit by US cruise missiles on Sunday was part of Iraq's nuclear programme.

Mr Maurizio Zifferero, head of the UN team responsible for monitoring the nuclear programme, said his team had no doubt equipment there was used in the manufacture of calutrons, which are used in the electromagnetic enrichment of uranium.

Iraqi officials have protested that the site, which houses dozens of factory buildings over a wide area, produced only fixtures, moulds and dies and had no military significance.

Mr Zifferero, speaking from the International Atomic Energy Agency headquarters in Vienna, said that while factories on the site did indeed turn out such products, his inspectors had tagged for destruction heavy lathes and milling equipment there.

He said inspectors, who had visited the site, code-named Al-Rabiya, four times, were in no doubt the equipment was used in the manufacture of calutrons.

He added that the site, along with the nearby al-Dijila complex which produced electronic components identified as being part of Iraq's nuclear programme, represented one of the six main centres in Iraq's project to develop nuclear weapons.

"The Iraqis themselves have admitted to us that these tools had been used in the manufacture of calutrons," he said.

Mr David Kay, secretary-general of the Uranium Institute and a former chief UN nuclear inspector in Iraq, said in London yesterday he had visited the Iraqi site on three occasions. He described it as "a very impressive and advanced machine tool layout". Western-made equipment included computer and numerically controlled machine tools.

US officials yesterday described the site as a multi-billion dollar complex which Iraq would be unable to replace.

Brussels cuts EC growth forecast

By Lionel Barber in Brussels

THE EUROPEAN Commission yesterday cut its forecast for growth in European Community countries this year to 0.8 per cent from 1 to 1.5 per cent. It laid most of the blame on the sluggish German economy.

EC finance ministers in Brussels reacted with an effort to talk up prospects for an early cut in European interest rates, an accelerated growth package and the view that the worst of the crisis in the exchange rate mechanism was over.

In a joint statement, ministers reaffirmed their determination to support member states participating in the ERM and issued an unusual statement welcoming the new Irish government's decision to defend the punt's existing parities with other ERM currencies. "The Council believes this policy is entirely justified," ministers said.

Mr Henning Christophersen, economics commissioner, said the statement reflected a joint belief that recent speculation against the punt, the French franc and the Danish krone was

Continued on Page 18
Italian loan deal, Page 18

Xerox plans to shed financial services operations

By Nikki Tait in New York

XEROX, the US document-processing group, yesterday announced plans to shed its remaining insurance and financial services businesses, in order to concentrate on core operations.

The businesses which are to be discarded include Furman Selz, the New York brokerage house; Crum and Forster, the property-casualty operation; and Xerox Life, a life insurance and annuity business.

Xerox said it would take an after-tax charge of $778m in the fourth quarter as a result of the move. This figure includes a net $288m to strengthen reserves at Crum and Forster, plus $470m for a partial writedown of goodwill attaching to the financial services and insurance businesses.

To help maintain its own financial position, Xerox added that its board was considering the issue of up to $500m of new equity during the first half of 1993.

Mr Paul Allaire, chairman, said: "It is imperative that Xerox continue to maintain its strong balance sheet, both to make sure our document-processing business has the financial resources to meet its growth objectives and to facilitate an orderly disentanglement from our insurance and other financial services businesses."

Yesterday's announcement follows a series of steps by Xerox in recent years to reduce its troublesome foray into the financial services sector, which is reckoned to have cost about $3bn.

It has already pulled out of third-party financing and, on the insurance side, has withdrawn from standard personal property and casualty business. Last October, Xerox also sold its Van Kampen Merritt operation, which provides investment advisory services, for $360m to Clayton, Dubilier & Rice, the New York-based buy-out specialists.

Crum and Forster was acquired by Xerox in 1983, to balance the company's then-flagging copier operations. The current restructuring of the insurance operation is designed to focus it on specific segments of the property-casualty market, and Xerox hopes that the individual units within Crum and Forster would now be "viable, profitable entities" and attract investors.

In the first nine months of 1992, Xerox made after-tax profits of $28m from financial services, compared with $374m from the document processing side.

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Shape up or be fired, Russian managers told

By John Lloyd in Moscow

RUSSIAN industrialists were warned yesterday that those who failed to improve their companies' performance would be sacked and replaced.

Mr Boris Fedorov, the new Russian deputy prime minister in charge of the economy and finance, issued the warning, stressing that the new government would have to crack down much harder on inflation and on the budget deficit than did the previous government of Mr Yegor Gaidar.

He said that Mr Viktor Chernomyrdin, the new prime minister, and his team – largely inherited from Mr Gaidar – would be "more decisive in the battle against inflation".

In a direct criticism of Mr Gaidar, he said: "The Gaidar government was repeatedly accused of having a rigid monetary policy – but it did not. Billions of roubles were poured into the economy." A decree backed by Mr Chernomyrdin and signed by him on the last day of 1992 to control prices by extending profit controls on enterprises producing essential foodstuffs had, he said, been rendered null and void. "This government will not try to extend controls on prices."

The measures to be taken to restructure Russia's vast and generally inefficient state sector appear to conform to the ideas put up by some industrialists for a more active industrial policy by the state. This line was endorsed by President Boris Yeltsin, the Congress of People's Deputies in December and, in a more muted fashion, by Mr Gaidar himself.

Promising strong measures to combat unlimited credit advances to companies, Mr Fedorov said: "If the state supports enterprises, it has the right to get assurances that they will not exceed the resources given. Where the companies are state property it is the privilege of the state to reorganise those companies and to replace these managers accustomed to live an easy life by lobbying for credits."

Such a policy, he said, would mean that "you do not need to close enterprises". However, he did not rule out bankruptcies and said a "bankruptcy agency" would probably be created to oversee companies which were no longer viable.

Acknowledging that there were serious differences between the government and the Russian central bank, he said that Mr Viktor Gerashchenko, the central bank chairman, would join the committee on credit policy set up under Mr Gaidar to attempt to control the bank's credit advances – an obvious attempt to rein back the chairman.

Mr Fedorov said that the central bank's job was to "strengthen the rouble, not keep up production". The bank should not relieve the enterprises of their debt burden by paying off the accumulated debt every six months.

Ukrainian President Leonid Kravchuk announced yesterday that Ukraine and Russia had reached a tentative agreement on division of the former Soviet Union's foreign debts and assets, writes Chrystia Freeland in Kiev.

He said the proposal, agreed at meetings in Moscow on Friday, was now being considered by the Paris and London Clubs of creditors. Last week, the unresolved dispute between Ukraine and Russia over foreign debt forced western creditors to call off debt rescheduling talks.

Unlike the other former Soviet republics, Ukraine has been reluctant to accept the "zero variant", according to which Russia would assume responsibility for both debts and assets.

Instead, Ukraine has pressed Russia to disclose the full extent of the foreign assets of the former Soviet Union and has expressed readiness to independently pay its share of the debt.

Ukrainian officials said that, according to the deal, Ukraine would independently pay for a share of the foreign debt, a solution western creditors have strongly opposed in the past, fearing that Ukraine will be unable to meet its obligations.

The designers of the new train for the Moscow underground showing Russian president Boris Yeltsin (front left) and prime minister Viktor Chernomyrdin (behind) the controls yesterday

W European car sales better than expected

By Kevin Done, Motor Industry Correspondent

NEW CAR sales in west Europe jumped sharply in December thanks to an unexpected surge in demand in some of the biggest markets: Germany, the UK, France, Spain and the Netherlands.

According to industry estimates, west European new car sales in December rose year-on-year by 18.7 per cent to 975,000.

The higher level of new car demand in the final months of the year left sales for the whole of 1992 virtually unchanged at 13.5m.

Figures for several of the 17 markets across west Europe are still based on preliminary estimates, but the strength of demand in recent months has confounded carmakers' more pessimistic forecasts. According to industry estimates new car sales last year were less than 0.1 per cent lower than in 1991.

The decline in sales in several European markets in the past three years has been compensated for by the addition of eastern Germany, since mid-1990, to the overall market. Total west European new car sales have remained at a plateau of around 13.5m for the past four years.

Germany, the single biggest car market in Europe, again played a pivotal role in December with an estimated sales increase year-on-year of 33 per cent to 306,000.

The surge in December could depress sales this month, as purchases were pulled forward to avoid the increase in valued added tax in Germany at the beginning of January.

The same happened in France, where new car sales were pulled forward into December by tax incentives, which helped to push sales to an estimated 221,000, up year-on-year by 33.5 per cent.

In the UK, sales last month jumped by 37.1 per cent year-on-year to 79,900, although special factors may have distorted the picture. with registrations boosted by discounting and other heavy incentives, as well as a high level of sales to employees by some car makers.

Only Italy suffered a decline among the main volume markets in December with a fall year-on-year of 6.4 per cent.

Across west Europe sales both in December and in the whole of 1992 were higher than a year earlier in nine markets and lower in eight.

Most importantly, new car sales in the whole of 1992 were higher than a year ago in four of the five leading volume markets: Italy, France, Spain and the UK – though only marginally in the case of the UK – while the estimated decline in German new car sales of around 5.1 per cent was much less than feared by leading car makers.

The industry remains pessimistic about the outlook for new car sales in 1993, however, with most industry forecasts suggesting a decline of around 4 per cent.

Japanese new car sales in west Europe fell last year by an estimated 4.8 per cent to around 1.59m, reducing the share taken by Japanese car makers to around 11.8 per cent from 12.3 per cent a year earlier.

The Volkswagen group of Germany, which includes Audi, Seat and Skoda, was the best-selling carmaker in west Europe for the eighth year in succession.

It boosted its market share to a record 17.5 per cent from 16.4 per cent a year earlier and established a commanding lead ahead of its nearest rival, General Motors of the US.

Fiat of Italy, which includes Lancia, Alfa Romeo and Ferrari, was the main loser among the big six volume carmakers in west Europe. It slipped from second to fourth place behind VW, GM and the Peugeot group of France, which includes Citroën.

Fiat's sales volume in west Europe fell by an estimated 7.4 per cent to 1.6m last year following an 8.1 per cent decline in 1991.

Its market share fell to only 11.9 per cent from 12.8 per cent in 1991 and 14.2 per cent in 1990.

In the market for executive and luxury cars in west Europe BMW of Germany outsold its arch domestic rival, Mercedes-Benz, for the first time in its history.

BMW increased its sales by 7.2 per cent to around 443,000, while Mercedes-Benz was among the biggest losers.

Last year the company saw an estimated 8.6 per cent drop in sales to 413,000.

WEST EUROPEAN NEW CAR REGISTRATIONS
January-December 1992

	Volume (Units)	Volume Change(%)	Share (%) Jan-Dec 92	Share (%) Jan-Dec 91
TOTAL MARKET	13,506,000	−0.1	100.0	100.0
MANUFACTURERS:				
Volkswagen*(incl. Audi,SEAT&Skoda)	2,365,000	+6.8	17.5	16.4
General Motors (Opel/Vauxhall, US# & Saab)	1,685,000	+3.1	12.5	12.1
– Opel/Vauxhall	1,614,000	+3.1	12.0	11.5
– Saab**	51,000	−5.1	0.4	0.4
Peugeot (incl. Citroen)	1,646,000	+1.0	12.2	12.1
Fiat (incl.Lancia, Alfa Romeo,Ferrari Innocenti,Maserati)	1,605,000	−7.4	11.9	12.8
Ford (Europe, US# & Jaguar)	1,525,000	−5.2	11.3	11.9
– Ford Europe	1,512,000	−5.1	11.2	11.8
– Jaguar	11,000	−12.2	0.1	0.1
Renault††	1,432,000	+5.9	10.6	10.0
BMW	443,000	+7.2	3.3	3.1
Nissan	434,000	−1.7	3.2	3.3
Mercedes-Benz	413,000	−8.6	3.1	3.3
Toyota	337,000	−6.6	2.5	2.7
Rover†	331,000	−5.7	2.4	2.6
Mazda	269,000	−6.2	2.0	2.1
Volvo††	198,000	−0.2	1.5	1.5
Honda†	176,000	+1.8	1.3	1.3
Mitsubishi	160,000	−16.7	1.2	1.4
Total Japanese	1,588,000	−4.8	11.8	12.3
MARKETS:				
Germany	3,946,000	−5.1	29.2	30.8
Italy	2,375,000	+1.5	17.6	17.3
France	2,106,000	+3.7	15.6	15.0
United Kingdom	1,594,000	+0.1	11.8	11.8
Spain	979,000	+10.4	7.3	6.6

#Cars imported from US and sold in western Europe.
**VW holds 31 per cent and management control of Skoda.*
***GM holds 50 per cent and management control of Saab Automobile.*
†Honda holds a 20 per cent stake in Rover vehicle operations.
††Renault and Volvo are linked through minority cross-shareholdings.
Source : industry estimates

Moscow invites Pretoria to missiles talks

By Leyla Boulton in Moscow and Daniel Green in London

RUSSIA will this week invite South African officials to Moscow for formal talks on supplying Pretoria with converted SS-20 intermediate-range missiles to launch nine space satellites. Moscow has informally offered to launch South African observation satellites at one quarter the price of a western launch.

A formal offer is likely to heighten concerns among US and European companies in the $2bn-a-year commercial launch business that the Russians could price them out of the market.

The Russian offer is likely to draw a sharp response from the aerospace industries.

Mr Yuri Milov, deputy director of the Russian Space Agency, said the design bureau for the missiles, which are due to be eliminated under the INF (Intermediate Nuclear Forces) disarmament treaty, had already elaborated plans to convert them to civilian uses.

But Russian authorities were anxious to put South African inquiries on an official footing, to avoid accusations of improper dealings with a nation that still faced western arms sanctions.

"Otherwise, the next thing we know the Americans will be screaming we are proposing to supply South Africa with strategic weapons," he said, recalling recent US attempts to block Russia's sale of rocket engines to India for satellite-launching.

Informal contacts between Moscow and Pretoria have already been made through the Bonn office of the South Africa Foundation, a private-sector lobby group. Moscow had offered launches at $10m each on SS-20s, Mr Rudolf Gruber of the SA Foundation said. Similar launches cost $40m in the west.

Mr Gruber said Russia would bring mobile SS-20 launchers to South Africa and remove the equipment after launch to comply with the terms of strategic arms reduction treaties signed with Washington.

The Ukrainian design bureau, which produced the much larger SS-18 long-range missiles, due to be eliminated under the Start 2 treaty, was also trying to find civilian customers.

The SS-18 multiple warhead technology meant all nine satellites could be launched together.

Italy moves nearer reforms

Politicians must decide which way to jump, Robert Graham writes

ELECTORAL reform in Italy has finally been removed from the level of mere rhetoric.

Parliament now has to come up with proposals in the next two months or its hand will be forced by a referendum to be held between April 18 and June 13. In any event the legislation will have to respect the spirit of the referendum proposals approved on Saturday by the country's constitutional court.

This is the immediate effect of the court's historic ruling on 13 referendums, of which 10 were approved. But admitting the referendums will have a much broader impact on the whole issue of reforming Italy's institutional structure, put in place by the 1947 constitution. As one commentator said: "This is the end of the First Republic and the beginning of the Second."

The two most important referendums concern the abolition of the existing system of proportional representation in favour of a first-past-the-post system. Italy's electoral system was geared to a country emerging from fascism into the cold war. Proportional representation was intended to foster minority parties and discourage monolithic groups like the Communists or disbanded fascists. But this has created unstable coalition governments and an unworkable fragmentation of parliamentary parties – with no fewer than 16 represented after last April's general elections.

One specific referendum proposal is for 238 of the senate seats to be elected by majority vote and the remaining 77 on the existing method of proportional representation. Another extends the majority vote to municipalities of over 5,000.

Although the proposal covers only majority voting for the senate and municipal elections, all parties recognise that the principle extends by implication to the more powerful legislative forum, the chamber of deputies. Equally, the other referendums, which include the abolition of public funding of political parties, will accelerate a general revision of the existing institutional structure.

The need for change was emphasised by President Oscar Luigi Scalfaro in his inaugural address last May 28 when he took the unprecedented step of calling for a special parliamentary commission.

The latter was formed in September from both houses of parliament and was in part intended to head off the cross-party referendum alliance, led by Mr Mario Segni, who already had before the courts his proposals for the Senate election change.

However, none of the parties has yet made clear whether it prefers a majority vote based on a British-style single round or the French system of a second-round run-off where a majority has not been obtained the first time.

The politicians must now decide whether to work for an agreement in the commission and produce proposals which head off the referendum – or wait until after the referendum result is known. The latter course is most likely. Time is too short, and enough politicians believe their ambitions will be furthered by riding the referendum wave, which will almost certainly triumph, given the discredit of the traditional parties.

Mr Mino Martinazzoli, the Christian Democrat leader, candidly commented: "We would rather avoid the referendum, although frankly at this stage I fear we cannot. Nevertheless, if the referendum is held we will be protagonists and not be overtaken by the event."

This suggests the Christian Democrats will try to ensure the referendum vote is not a popular judgment on their role in government. When the last referendum was held in June 1991, to eliminate multi-preference voting within the proportional representation system, the Christian Democrats and Socialists badly misread the public mood, opposed it and were duly castigated. Indeed it will be surprising if every political party does not jump on the referendum bandwagon.

But if this happens, it will merely speed the process of change and at the same time encourage the nascent cross-party alliances.

With electoral reform pushed to the top of the national agenda absorbing all the parties' attention, Prof Giuliano Amato's coalition government should benefit. With the exception of the hardline Reconstituted Communism and the Lombard League, no party now has an interest in ending his fragile coalition until the lines of a new electoral law have been agreed and probably approved by parliament.

On this basis the government has until the summer, and then it will be for the politicians to decide whether to call early elections or expand the government to obtain a broader consensus in order to introduce comprehensive constitutional reforms.

Special factors affect November figures

French output declines 4.5%

By David Buchan in Paris

THE FRENCH national statistics office, Insee, yesterday announced that the country's industrial output fell in November by 4.5 per cent, a sharp drop that will further entrench economic recovery as the main issue in the March election.

The exceptional decline was largely due to special factors causing a 12 per cent drop across the range of energy production, with a refinery explosion limiting oil output, mild weather reducing gas demand, and sluggish industry depressing demand for electricity.

The reduction in manufacturing output in November from the previous month's level was a more modest 2.1 per cent.

Nonetheless, at the very least growth in the French economy seems to have flattened out in the fourth quarter of last year, after a 2 per cent in gross domestic product between January and September, and a 0.7 per cent rise in industrial output in October.

Prime Minister Pierre Bérégovoy last week abandoned the official forecast of higher growth this year. Both government and opposition have conceded that no reduction in the unemployment mountain of nearly 3m people – the main casualties of low growth and high interest rates – is likely until 1994.

● The Bank of France intervened to the tune of FFr156.2bn ($28.9bn) to defend the franc in the seven weeks following mid-November and FFr16.66bn in the first seven days of this year, according to the economic studies department of state-owned bank Crédit Lyonnais, Reuter reports from Paris.

East German investment worry

By David Marsh

FOREIGN companies seeking to invest in east Germany widely believe they suffer discrimination compared with indigenous groups, according to a report* published today.

The report, from the Anglo-German Foundation for the Study of Industrial Society, says foreign companies can overcome this handicap by emphasising the competitive advantages of foreign investment in the east. Foreign companies have made up about 10 per cent of investment channeled to east German through privatisation of state industry holdings since reunification.

France, the UK, the Netherlands and Switzerland are the main European countries making east German acquisitions. The Treuhand, the government agency in charge of privatising east German assets, has been increasingly trying to promote foreign participation to spur competition.

The Anglo-German Foundation advises foreign bidders to use this argument to support their investment efforts.

Additionally, foreign companies can argue that their acquisitions would prevent east German companies becoming secondary outlets, subordinate to parent companies in western Germany.

**British investment in a united Germany. Anglo-German Foundation, 17 Bloomsbury Square, London WC1A 2LP, or Jean-Paul-Strasse 12, 5300 Bonn 2.*

Danes turn towards Maastricht

By Hilary Barnes in Copenhagen

A LARGE and increasing majority in Denmark supports the Maastricht treaty, according to an opinion poll published yesterday.

The treaty is due to be submitted to a second referendum in Denmark later this year. The poll showed that 56 per cent would vote yes, 30 per cent no, and 14 per cent were undecided.

It was conducted on January 11 and 12, before the publication of the Tamil report, on Thursday, and the consequent resignation of Prime Minister Poul Schlüter.

This compares with a December poll in which 51 per cent were in favour, 37 per cent against and 12 per cent undecided. In last June's referendum on the treaty 50.7 per cent voted in favour of the treaty and 49.3 per cent against.

The date of the second referendum has not yet been set, but it is expected it will be held in May.

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European petrochemicals reform 'could save $2bn'

By Paul Abrahams

EUROPE'S petrochemical industry could save as much as $2bn (£1.3bn) a year if it restructures, according to a confidential survey of 34 plants representing 75 per cent of European capacity.

The survey*, by consultants Chem Systems in London, demonstrates the current plight of the petrochemicals and plastics sector. It estimates that even the most efficient producers are generating a minus 5 per cent return on capital. The worst producers are performing far worse than that.

The industry has been hit by a combination of slower than expected demand growth and chronic overcapacity. The quickest and cheapest way to improve the industry's cost structure is to concentrate the industry, eliminating the smallest and least efficient plants. This would leave between eight and 12 producers but still ensure healthy competition, claims Mr Roger Longley, a Chem Systems director.

Merely by reducing the number of polypropylene producers from 17 to 11 the industry would save $250m a year, he argues.

The survey also demonstrates most petrochemical and plastics plants are highly inefficient. If the most efficient European plant adopted the best practice of other plants in terms of staffing, maintenance, overheads, utilities, credit and logistics, it could make fixed-cost savings of $79 per tonne.

The worst practices in existing plants add up to more than $230 per tonne higher than best practice. The difference between the worst and best plant is $153 per tonne. This excludes differences in raw materials – the few plants using liquid petroleum gas have a significant cost advantage over those using naphtha.

The report adds that a properly integrated plant can create revenues worth more than $100 per tonne of ethylene. It says few refiners integrate their plants effectively.

"The bottom line message is clear and brutal," says Mr Longley. "Management in almost every company has failed to address inefficiencies."

The industry's ability to sort out its problems has been lessened since the early 1980s, because about 20 of the least efficient plants were shut down at that time, warns Mr Longley.

The position of EC manufacturers is likely to deteriorate as they face increasing competition from imports.

The consultants also warn that imports could take 40 per cent of the Ethylene Glycol market by the year 2000. European petrochemical manufacturers face an additional problem with the build up of environmental costs. It says the cost of complying with a carbon tax would add up to $22 to the cost of ethylene produced and $34 to the cost of high density polyethylene.

Chem Systems reckons European polyethylene could faced environmental costs of up to $80 a tonne compared with importers.

**European petrochemical strategy in the 1990s, Chem Systems, 28 St James's Square, London, SW1Y 4JH. + + 44 71 839 46 52, £25,000.*

PETROCHEMICAL PROCESSING EFFICIENCY ($/metric ton ethylene)

	Best - Leader*	Leader - Worst†
Manpower	2	15
Maintenance	16	28
Overheads	25	39
Utilities	16	40
Logistics	15	15
Credit	5	16
Total	79	153

*Difference between best in each sector and overall cost-base leader.
†Difference between worst in each sector and overall cost-base leader.

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Moslem-Croat clash threatens peace plan

By Robert Mauthner, Diplomatic Editor

A CRUCIAL Bosnian Serb vote due today on an internationally brokered peace plan for Bosnia has been overshadowed by the outbreak of heavy fighting between Moslems and Croats, theoretically allies in the war against Serbs.

The battle around Gornji Vakuf, a town in south-west Hercegovina near the Adriatic, appears to have been provoked by the Geneva peace process itself, particularly the map tabled by the international mediators, Mr Cyrus Vance and Lord Owen.

Bosnian Croatian forces have attempted to consolidate their positions in areas designated as Croat-controlled on the map, which divides the proposed future state of Bosnia-Hercegovina into 10 semi-autonomous provinces.

That map, which is disputed both by the Moslems and Serbs, has been formally approved, so far, only by the Bosnian Croats. When the Bosnian defence minister, Mr Bozo Rajic, a Croat, ordered several Moslem army units to submit themselves to the Croatian command at the weekend, Moslems saw the move as pre-empting a peace settlement that had not yet been reached.

The fighting has intensified following an order to Moslem troops by the Bosnian Moslem army commander, Mr Sefer Halilovic, to ignore the order to submit to the Croat command. The Moslem Croat flare-up threatens to undermine the peace process just as the Bosnian Serbs appeared to be completely isolated in the Geneva negotiations. Their leader, Mr Radovan Karadzic, was forced to make a humiliating about-turn at the conference last week, when President Slobodan Milosevic of Serbia put strong pressure on him to accept the mediators' constitutional framework for Bosnia-Hercegovina.

However, Mr Karadzic agreed to do so only on condition that the Bosnian Serb assembly approved the proposals within a week. The assembly's vote today, at the Bosnian Serb headquarters in Pale, near the besieged Bosnian capital of Sarajevo, is expected to be close.

But the indications are that hardline deputies, who make up the majority of the assembly, may be won round by the arguments of Presidents Milosevic, President Dobrica Cosic of the rump Yugoslav Federation and Momir Bulatovic of Montenegro, all of whom have said they would attend personally to support the case for acceptance. Mr Nikola Koljevic, one of the three Bosnian Serb vice-presidents, said at the weekend that he hoped the fighting, which includes renewed Moslem-Serb clashes in eastern Bosnia, would not threaten the peace process.

"I hope the leadership of the (Bosnian) Serb republic will be able to explain that the Geneva proposal is in our best interests and represents a major step towards peace," he was quoted as saying by the Bosnian Serb news agency.

It is clear, however, that even if the Bosnian Serb assembly gives the green light to the Vance-Owen constitutional principles, the road to a final peace settlement remains long and hard. In addition to the map dispute, the terms for a permanent ceasefire and troop pull-back, and particularly the placing of all heavy arms under United Nations control, are also likely to be disputed when it comes to negotiations of the details.

Kosovo shudders under the yoke

Jonathan Ledgard reports on Albanians' resentment at the rule imposed by Serbia

IN THE cramped and freezing bungalow which houses Kosovo's outlawed ethnic-Albanian parliament, 14-year-old Lumzim was giving his testimony. He looked shocked and close to tears.

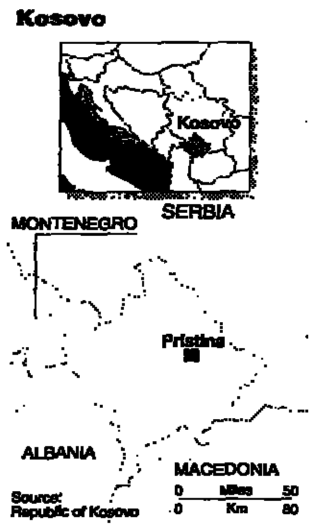
Lumzim (not his real name) had saved DM300 ($188) selling cigarettes on the streets and had planned to travel to friends in Albania with the money. On the way to the bus station, he said, four Serbian policemen stopped him, stripped him naked in the freezing cold and found the money pinned to the inside pocket of his jeans.

They beat him, stole his passport and money and forced the pin down his throat. An x-ray shows the two-inch pin lodged in his stomach. It would take an operation to remove it, but Serbian-controlled hospitals have denied care to Albanians.

The incident is part of the systematic political and human rights abuse, identified by international human rights organisations, inflicted on ethnic Albanians, who make up 90 per cent of Kosovo's population.

Kosovo used to be an autonomous province of former Yugoslavia until it was reincorporated unilaterally into Serbia three years ago by Mr Slobodan Milosevic, its Communist-turned-nationalist leader.

Kosovo



Source: Republic of Kosovo

Serbs, resentful that 500 years of Ottoman rule and the high birth rate of ethnic Albanians has made them a tiny minority in the former cradle of Serbia's medieval kingdom, voted overwhelmingly for ultra-nationalists in last month's general elections – boycotted by ethnic Albanians. The outcome has raised the tension level and the risk of an Albanian revolt which, once unleashed, would invite Serb repression on a scale which could provoke irresistible demands for intervention from the Moslem world.

It is a testament to the repression in Kosovo that Zeljko Raznjatovic , better known as "Arkan" and described by the US government as a Serbian war criminal, was elected to the all-Serbian parliament, and operates openly from the lobby of the Grand Hotel. He dresses fashionably and is guarded by thuggish veterans from the earlier fighting in Vukovar and other war-torn towns and villages in Croatia.

In an interview he made clear his unconcern about his reputation and the war criminal tag put on him by Mr Lawrence Eagleburger, US secretary of state. "I don't give a damn about Eagleburger and his damn trial. He is more of a war criminal than I am," he says.

While extreme nationalists won most of the seats in the December elections, the Democrats led by Mr Milan Panic, who were the only group prepared to compromise over Kosovo, did not even win a seat. This is bad news for ethnic Albanians, although Arkan claims they have nothing to fear. "If the Albanians are honest and look to Belgrade we welcome them," he says. "If it is Tirana, the Albanian capital they look to, we'll help them back."

Most ethnic Albanians here demand independence for Kosovo, rather than union with even more impoverished Albania across the mountains. But, asked about the clandestine ethnic Albanian government headed by self-styled president Ibrahim Rugova, Arkan was ominously dismissive. "Rugova is a tourist in Serbia, an Albanian tourist. He will be leaving very soon, believe me."

Mr Rugova is trying to keep the peace, and it is proving very hard. The Serbs have shut all the Albanian media, but with every arrest and killing of an Albanian by Serbian authorities the country people, for whom the vendetta, or *kahun*, is still a cherished way of death, are becoming more restless.

Mr Rugova and other ethnic Albanian intellectuals are haunted by the knowledge that any war would end in slaughter of the unarmed Albanians, half of whom are under 15 years of age.

The Yugoslav civil war has been fought from the hamlet up. Kosovo will be no different. To stop a bloodbath here, the United Nations would have to deploy massive peacekeeping forces on the ground in the rural communities and emasculate the Serbian authorities. This seems improbable.

Young ethnic Albanians say they are prepared to die. "We would rather die than be Serbian slaves," said one group of students.

Many Serbs think the same way. "Only war will sort this mess out. That's why I voted for Slobodan Milosevic. He will protect us from the Moslems, from genocide," said a working-class Serb in the Kosovan capital, Pristina.

Such views are common and there is almost no middle ground. Albanians want to be free and Serbs want back what they see as their cultural heritage. Arkan's cause is also clear.

He will use all means available to crush Albanian hopes of independence.

But even Arkan fears clannish Albanian culture and has sponsored the inflow of Serb immigrants. He and his followers exude violence and the hatred between Christians and Moslems here is tangible. As a warlord, Arkan has already become rich through war. Many fear he also has a personal interest in seeing war and the opportunity for pillage spread to Kosovo.

German Greens in merger

By Ariane Genillard in Bonn

WESTERN Germany's Green party, once the strongest ecological movement in Europe, is to unite with Bündnis 90, a pro-environment group in the eastern part of the country, in a joint-party conference in May.

The move is designed to regain a foothold in the federal parliament, which the west German Greens lost in the last elections after narrowly failing to get the required 5 per cent of the vote. Bündnis 90, a loose anti-communist movement allied with the east German Greens, won 5.6 per cent of the vote in eastern Germany.

The marriage of convenience was welcomed by the opposition Social Democrats who hope to find a coalition partner if they gain power in Germany's next general elections, scheduled to take place at the end of 1994.

But Mr Uwe Lühr, secretary-general of the liberal Free Democrats, the minority party in the government coalition, called the merger "an act of desperation".

SPD urges probe on contract

By Quentin Peel in Bonn

GERMANY'S opposition Social Democrats (SPD) yesterday demanded clarification of the circumstances surrounding a DM3bn ($1.8bn) contract for a US-manufactured high altitude reconnaissance system, which has been put on ice pending an investigation into possible corruption.

The signing ceremony for the Lapas system, made by E-Systems, of Greenville, Texas, was cancelled on Friday by Mr Volker Rühe, the German defence minister.

The system, capable of monitoring and evaluating electronic information from high altitude, was intended to be carried by 11 aircraft built by the Bavaria-based company Grob Luft- und Raumfahrt.

The contract would have been the most important new collaborative venture between US and German defence contractors.

The inquiry concerns two civilians formerly employed in the Defence Ministry, and the former Luftwaffe inspector, General Eberhard Eimler.

Allies leave themselves a wide range of target options for future attacks

Raids designed to give clear message

By David White, Defence Correspondent

FOR ALL the signs of rapid military escalation, the three waves of attacks against Iraq by the US and its British and French allies, in the space of less than five days, were all characterised by their limited scale.

By not attacking some obvious targets, such as key military installations in central Iraq, the coalition has reserved its options for further action against a recalcitrant President Saddam Hussein.

The US has appeared anxious to demonstrate, particularly after the dubious results of the first attack last Wednesday, that it can hit Iraq when and where it chooses.

The weapons and targets have been the same as or similar to those of the Gulf war air campaign two years ago. But operations that were combined during the six weeks of attacks in early 1991 have been carried out separately. The allies want their action to be clearly seen as a specific response to Iraqi acts of defiance: movement of missiles in patrolled regions, stalling over UN inspections and unauthorised forays into Kuwaiti territory to retrieve material.

A further echo of the 1991 war is the combination of war-like rhetoric from Baghdad and unwillingness in practice to engage the US-led allies in combat. This is frustrating to attackers seeking to destroy air defences since their tactics are geared to homing-in on targeting radars and to air-to-air combat.

The main action yesterday morning was against two Iraqi air defence sites where Wednesday's attack was incomplete: al-Najaf, on the 32nd parallel, which forms the border of the southern no-fly zone, and al-Samawa, just

> The US has appeared anxious to demonstrate that it can hit Iraq when and where it chooses

inside that line and further to the east.

The allies have clearly been at pains to try to measure their action to make it commensurate with Iraqi challenges to UN authority and have also sought to minimise the risk to their own personnel.

According to UK officials, 43 allied aircraft took part in yesterday's action in southern Iraq, including 29 US and British attack aircraft and US and French fighters.

This was considerably fewer than took part in last Wednesday's night attack against eight sites. In neither action did the allies attack air bases further to the north from which Iraqi aircraft have infringed the no-fly zone in recent weeks.

The cruise missile attack on Sunday against an engineering complex outside Baghdad, alleged to have produced nuclear-related equipment, is seen as having more political than military significance, as a demonstration of US fire-power. It involved more than 30 Tomahawk missiles fired from warships in the Gulf and the Red Sea and was the only time these weapons have been used, except in the Gulf war.

The decision to return to sites in southern Iraq can be seen partly as a bid to restore US military pride after criticism over the failure to destroy some of the targets last week.

The targets did not include the al-Amarah facility assigned to the RAF Wednesday. The RAF said yesterday that a headquarters building at Al-Amarah had been completely destroyed by laser-guided bombs dropped by British Tornados, and an intercept control facility was probably put out of operation.

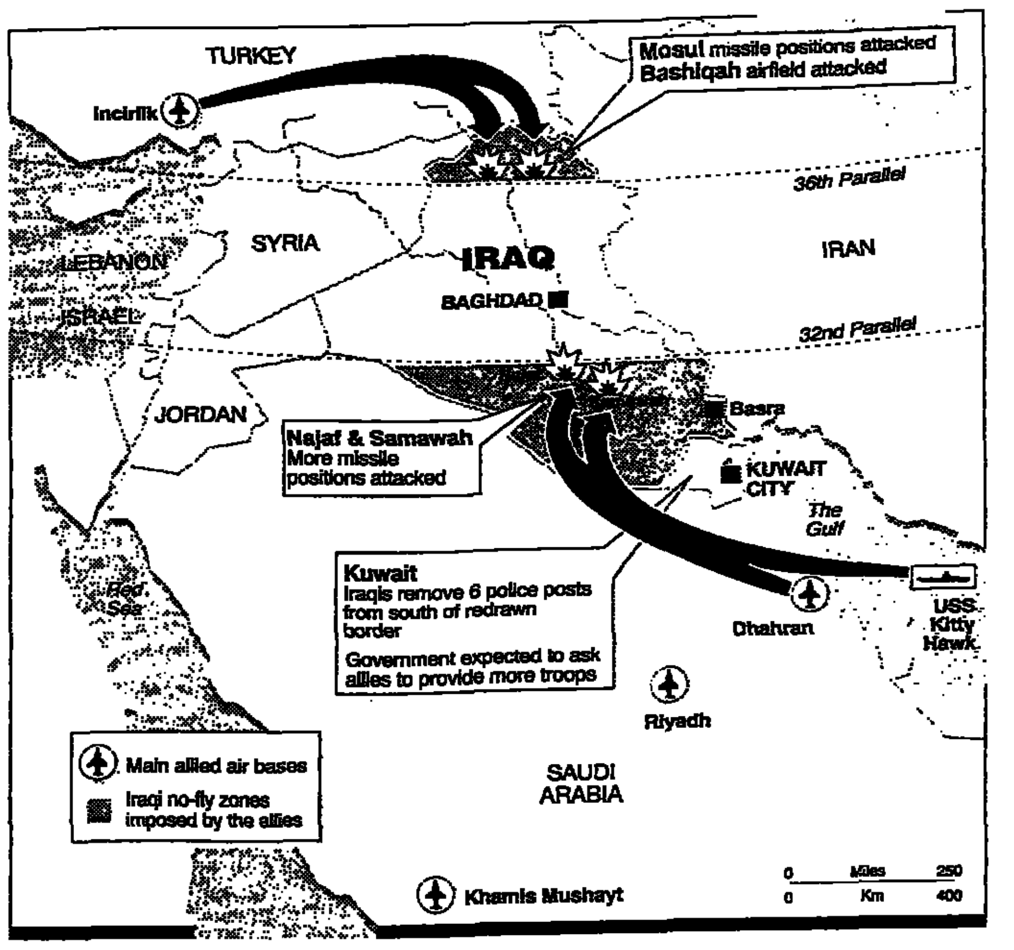
It remained to be seen if Iraq still possessed operational facilities of this kind for co-ordinating its air defences in the south. Officials warned that Iraqi forces would still be able to operate some anti-aircraft systems independently of the centralised control systems.

Further attacks in the northern no-fly zone focused on surface-to-air missile radars and anti-aircraft guns. This followed incidents in which radars locked on to allied aircraft, including two UK Jaguars flying yesterday on a reconnaissance mission from their base in south-eastern Turkey, which also came under fire from anti-aircraft artillery.

An Iraqi MiG-23, shot down by a US F-16 in northern Iraq on Sunday, was the second such incident, a MiG-21 having been downed on December 27.

Allied officials said they had no indication that Iraq had fired any missile towards the Arabian peninsula. This followed one report yesterday morning suggesting that a Scud missile might have been fired at the Saudi base of Dhahran and been shot down.

Use of a Scud missile would constitute the most serious of any provocation by the Iraqis in the recent confrontation. Under the terms of its 1991 ceasefire Iraq had to declare all its missiles able to reach targets more than 90 miles away, and these were scheduled for destruction. However, Baghdad is believed to be harbouring an unknown number of Scud missiles from its previous Soviet-supplied stockpile.



Damage goes on display in Baghdad

By James Whittington in Baghdad

IRAQ was at pains yesterday to show the world the civilian damage inflicted by the allied missile attack on Baghdad two years to the day since the beginning of the Gulf war, with President Saddam Hussein visiting the injured in hospital. But his propaganda machine left the main point of interest and the reason of Sunday's attack a mystery.

Three sites hit by missiles have been confirmed: the lobby of the Rashid hotel in Baghdad was badly damaged, a house in the suburb of Karada was half-demolished and a factory in Zafaraniya, 10 miles south of Baghdad and the announced target of the allied attack, was hit.

Western journalists, despite being escorted to the two civilian sites, were denied access to the factory at Zafaraniya. Described as a nuclear site by the allies and a facility for manufacturing industrial equipment by the Iraqis, an army official prevented an organised Ministry of Information tour of the site, despite the fact it had been viewed by some journalists immediately after the bombing.

"Yesterday was one day, today is another, he said.

The government took advantage of the high-profile Rashid bombing by holding a funeral for the two people who were killed in the hotel.

Escorted by a ceremonial army brass band, a large group of dignitaries, hotel staff and mourning relatives, the coffins of Amerika Toma, a receptionist at the hotel, and a female guest were marched to a burial site to the accompaniment of a funeral dirge.

Soon afterwards, more than 1,000 delegates at the Sixth Islamic Conference, who were removed to another hotel after the bombing last night, descended on the hotel to conduct the day's proceedings, and Rashid staff attempted to convey a sense of business as usual.

It was the same all over Baghdad. Iraq has been under seige in military and economic terms almost continually since the beginning of the Iran-Iraq war in 1980; coping in tragic circumstances has become a way of life.

However, a sense of despair was apparent after Sunday's attack, and disbelief that the capital was once again under fire from the allies. At the Karada site, where one woman was killed and her two daughters injured when their house was hit by a missile, Dr Mohammad Dowee, a military doctor and neighbour whose three daughters were injured by shattering glass, accused the allies of not caring about Iraqi civilians.

"If people [in the west] saw the exact picture, they wouldn't agree with what happened here. Killing ordinary Iraqis will not help enforce their demands," he said.

Kuwait still rebuilding its armed strength

By Mark Nicholson in Kuwait City

THE CLASHES in the Gulf over the past week have highlighted the continuing weakness of Kuwait's armed forces. They are still in the earliest stages of rebuilding after the Gulf war two years ago and do not alone have either the manpower or equipment to mount a credible military deterrent to Iraq.

A pre-war total of around 25,000 armed forces personnel has shrunk to nearer 16,000 after Kuwait's military authorities ejected thousands of Bedouin, or stateless Arabs, who made up the core of the army's fighters, judging their loyalty to be suspect after the Gulf war.

Although Kuwait's air force is at present being reinforced by the arrival of 40 F-18 jets ordered before the war – a few of which joined the first allied raid against southern Iraq last week – the undermanned ground force is equipped only with 150 Yugoslav-built M84 tanks and little support equipment.

Recently-ordered M1A2 tanks from the US are unlikely to be in effective service for up to two years, and Kuwait has still not decided on a large contract for armoured personnel carriers. The country has no air defence system of its own, relying for radar cover on US early-warning aircraft operating out of Saudi Arabia.

However, western officials in Kuwait say there are ample forces in the country to deal with any Iraqi aggression. Last week the US deployed a 1,100-strong US task force equipped with pre-positioned M1A1 tanks and Bradley fighting vehicles. It also has 300 special forces troops on exercises in Kuwait. A small Gulf force, including a Saudi Arabian armoured brigade, is also still based in Kuwait.

Diplomats say that Iraq's remaining ground forces, which at best represent 40 per cent of the country's pre-war military strength, are tied up in northern Iraq and in continued fighting with Shia groups in the south.

Several Republican Guard units are at present deployed around Baghdad. "There's no way any force of any size could turn south and head for Kuwait," said one.

Western officials also discount any threat from whatever Scud missiles Iraq may have kept hidden from UN weapons inspectors.

Although no one rules out the possibility that Iraq may be able to launch one or two missiles, this alone would represent no significant threat, not least because of the continued presence of Patriot anti-missile missiles in Saudi Arabia and – it is believed though officially denied – also in Kuwait itself.

A Kuwaiti citizen inspecting the inside of a US armoured vehicle yesterday as troops prepare them for exercises in northern Kuwait

Legal basis for action is unclear

By Edward Mortimer

THE LEGAL status of the latest hostilities in the Gulf is confused by two separate Security Council resolutions, which differ in form and content.

Resolution 687, passed on April 4, 1991, embodies the formal ceasefire terms imposed on Iraq by the UN at the end of the Gulf war. Iraq was required to accept it, and did so, as the alternative would have been a resumption of hostilities.

Violations of it amount to breaches of the ceasefire, and therefore the powers which fought the war (with the authorisation of th Security Council under an earlier resolution, No 678) consider themselves legally entitled to respond to such violations with military force.

Resolution 688, deals with the internal affairs of Iraq. It was a response to President Saddam Hussein's suppression of the uprisings in both south and north that followed his defeat in the war. The attack on the Kurds, especially, caused an outburst of revulsion and guilt in western countries as well as serious alarm in Turkey, which found itself facing a refugee crisis.

The Security Council condemned the repression and demanded that Iraq put a stop to it; called for a "broad dialogue" aimed at ensuring respect for "the human and political rights of all Iraqi citizens"; and insisted that Iraq allow international organisations access to all those who needed help in any part of the country.

It did not, however, threaten any action to enforce these demands if Iraq failed to comply with them. Western powers frequently refer to Resolution 688 to justify the military action they subsequently took, first to establish a "safe haven" for the Kurds in the north of the country, and more recently to create a "no-fly zone" in the south – the latter being supposed to inhibit repressive activities against the Shia Moslem population, and particularly against both refugees and indigenous inhabitants in the marshes of lower Mesopotamia, close to the Iranian frontier.

But the text of the resolution contains no reference to any such action. There has been intermittent talk of a new resolution to back up 688 and make it enforceable. But so far none has been submitted.

Formal de-recognition of Mr Saddam's regime might be a necessary first step.

The US and its allies seem to be on stronger legal ground in taking military action to deal with incursions across the Kuwaiti border, or with obstruction of the UN inspection missions, verifying the destruction of Iraq's non-conventional weapons facilities, than they were in proclaiming the no-fly zones or in using military force to impose Iraqi compliance with them.

British MPs uneasy over drift towards greater conflict

By Philip Stephens, Political Editor

THE RENEWED military action against Iraq brought the first signs of unease among British politicians yesterday over whether the western allies have framed a coherent strategy to respond to President Saddam Hussein's defiance of the United Nations.

But Downing Street, warning of the possibility of renewed attacks unless Baghdad meets its UN obligations, rejected opposition suggestions that the west should seek a further mandate from the Security Council.

Prime Minister John Major's support for the latest two strikes was endorsed by Labour and Liberal leaders after government assurances that the attacks were fully in accordance with international law and the terms of existing UN resolutions. A dozen left-wing Labour MPs opposed to the strikes failed to secure an emergency parliamentary debate on the conflict.

But concern voiced by opposition spokesmen about the allies' long-term approach to the Iraqi leader was echoed by some senior Conservative MPs after a House of Commons statement by Mr Malcolm Rifkind, the defence secretary.

Mr David Clark, Labour's shadow defence secretary, and Mr Menzies Campbell, the Liberal Democrat spokesman, called for renewed debate in the Security Council to secure the broadest possible coalition against Iraqi provocation.

Cautioning that the allies could be drifting towards another bout of large-scale hostilities, Mr Clark said that they needed to re-establish a coherent and long-term strategy towards Iraq.

Mr David Howell, chairman of the influential foreign affairs committee of backbench MPs, added that military action should be underpinned by a political and diplomatic strategy designed to bolster internal Iraqi opposition.

Mr Rifkind stressed repeatedly that the three countries involved in the latest strike were carrying out the will of the UN. In southern and northern Iraq the allies were acting in self-defence against an Iraqi military threat to aircraft monitoring the UN-backed no-fly zones. The cruise missile attack was a measured and proportionate response to Baghdad's refusal to allow free access for UN weapons inspections teams.

Officials added that there was no need for the west to seek a renewed mandate from the Security Council as long as its response remained proportionate to Iraqi defiance.

But there was acknowledgement in Whitehall that if Saddam does not back down, it will be increasingly difficult to allow piecemeal escalation. Mr Rifkind said repeatedly yesterday that military action was a last resort. But he offered no other real alternatives.

Mr Major is acutely conscious of the need to remain with a UN framework and of the concern in the Arab world about the legitimacy of repeated strikes.

He spoke personally no fewer than six times to outgoing President George Bush over the weekend before final approval for the latest two strikes was given.

But MPs at Westminster are no longer sure where military action is taking them.

Opposition to Saddam forms a perplexing mosaic

There are many rival groups, and the west is not sure about any of them, reports **Gareth Smyth**

FOR THE US and its Gulf war allies the most desirable outcome of the renewed military pressure on the Baghdad regime would be the overthrow of President Saddam Hussein. But that, too, would pose another acute dilemma for Washington as it tries to assess the Iraqi opponents of the regime and their chances of coming to power.

A Middle East analyst advising the incoming Clinton administration admitted yesterday: "US policy [on the Iraqi opposition] is that we have no policy, basically because we don't know any of these guys."

The complex divisions and rivalries within the ranks of the Iraqi opposition reflect the frustrations of exile, the influence of regional powers and Iraq's multi-cultural nature.

Iraq is an ethnic and religious mosaic. Since the days of Ottoman rule its elite has been drawn from the Sunni Arabs who today occupy most high posts in the ruling Baath party. Living mainly in the centre of the country around Baghdad, they make up barely one fifth of the population.

A quarter of Iraqis are Kurds, who are Sunnis but not Arabs. Some 55 per cent are Arab Shias, who share their religious traditions with Iran. The principal holy cities of Shi'ism, Najaf and Kerbala, are in southern Iraq, where Ayatollah Khomeini, the spiritual leader of the Iranian revolution, spent many years in exile.

During the eight-year war with Iran the Shias fought alongside fellow Iraqis, but Mr Saddam, Saudi Arabia and the US all fear links between Iraq's Shias and Tehran.

Iraq's two biggest Islamic umbrella groups, al Da'wa and the Supreme Council for the Islamic Revolution in Iraq (Sciri), form the backbone of resistance to the regime in the southern provinces of Nazariya, Amarah and Basra.

Other than the Kurds, they are Saddam's only opponents with armed militias inside Iraq. Both groups are Tehran-based and not natural allies of the US.

> **Turkey yesterday distanced itself from the US-led attack on Iraq, insisting that allied aircraft from the Incirlik air base had acted in self-defence in bombing anti-aircraft installations in northern Iraq, writes John Murray Brown in Ankara. It maintained the mission was part of Operation Provide Comfort, the coalition air umbrella to protect the Kurds north of the 36th parallel. The issue is particularly sensitive for Mr Suleyman Demirel, prime minister, who criticised in opposition Incirlik's use in the Gulf war.**

The London-based Iraqi National Congress (INC), founded in June last year, is more palatable to the west and was able to claim a degree of de facto recognition when a deputation met Mr James Baker, then US secretary of state, last July.

The INC is a coalition of Kurds, liberal Shias and some moderate Arab nationalists including former Baathist leader Mr Hani Fakaiki. Its programme promises a single, democratic, multi-party Iraq but with Kurdish aspirations recognised.

The INC wants wider western involvement in Iraq. It called last week for a UN security zone in south Iraq, a tribunal to try Mr Saddam for crimes against humanity, and direct UN responsibility for all humanitarian assistance.

The INC's support within Iraq remains hypothetical. Iraq has changed since many of its leaders were forced into exile, and a large part of the population has been born since Mr Saddam became president.

The INC has tried unsuccessfully to co-opt the Islamic groups, who because of their operations inside Iraq are unwilling to be marginalised in any unified structure. Discussions are continuing but INC leaders remain sceptical of the Islamic groups' commitment to pluralism. The Islamic groups equally doubt the extent of concrete western support on offer to a unified opposition.

Saudi Arabia and Syria have both derided the INC. Although hostile to Mr Saddam, they fear the influence of the Shias and are suspicious of democracy. Both governments have resisted the creation of a unified opposition and sponsor small groups of Iraqi Arab nationalists whom they would like to see in power.

In the north of Iraq some 50,000 sq km have been administered by Kurdish guerrillas since autumn 1991, when Mr Saddam withdrew his administration and imposed an economic embargo. A coalition of Kurdish parties has created a fledgling state, elected a parliament, and hosted an opposition conference in "liberated Iraq".

But the Kurds are short of food, fuel and spare parts. The Iraqi government channels UN relief from Turkey through a checkpoint which according to the Kurds allows only about 10 trucks a day to pass.

Mr Saddam has suggested resuming negotiations with the Kurds, which broke down in 1991. He has offered to accept Kurdish autonomy with jointly supervised elections within six months, and promised a share of revenue from the Kirkuk oilfields.

Armed with only light weapons, the Kurdish guerrillas are in no position to confront the 100,000 Iraqi troops in the region, and depend on allied air cover above the 36th parallel. With Mr Saddam still in power and the prospects for wider opposition co-operation at best uncertain, they face an uncomfortable stalemate.

"Western policy towards Iraq is not comprehensive, it reacts to events," said Kurdish spokesman Mr Hoshyar Zebar last week. Initial pleasure among the exiled opposition groups at renewed western military action was already giving way yesterday to frustration that the Baghdad regime had barely been scratched.

هكذا من الأصل

NEWS: INTERNATIONAL

Mahathir set for clash with sultans

By Kieran Cooke in Kuala Lumpur

MALAYSIA seems set for a constitutional crisis resulting from an increasingly bitter confrontation between the government of Dr Mahathir Mohamad, the prime minister, and the country's nine sultans (hereditary rulers).

Dr Mahathir yesterday brought constitutional amendments into parliament which would abolish rights guaranteeing the sultans' immunity from prosecution in courts. The amendments would prevent them pardoning members of their own families and would relax rules on reporting of any royal misdeeds.

The sultans issued a statement shortly before parliamentary proceedings began rejecting Dr Mahathir's amendments, saying the future of the monarchy in Malaysia was under threat.

Legal experts say the Malaysian constitution stipulates a majority of the sultans, each of whom takes a turn as king, must give their consent to any constitutional changes affecting the monarchy.

Dr Mahathir insists he has the right to push the amendments through parliament. He rejects criticism that he wants to abolish the monarchy but says the sultans must be made accountable for their actions.

The present stand-off originated in an incident late last year when one of the sultans is alleged to have beaten up a sports official. The local media, which had once avoided all adverse comment on the sultans, then began fulsome reporting of other alleged royal misdemeanours.

Dr Mahathir insists most of the population firmly supports the government's moves against the royalty, although the sultans are still regarded by some sections of the community as an important symbol of the country's Malay and Islamic identity.

The prime minister's critics say he is seeking to increase his executive powers. Parliament is today expected to approve the government's amendments.

It is then likely the sultans will challenge the action in the courts.

That could lead to a long legal battle and possible unrest in the Malay community as government and royalty vie for popular support.

New foreign minister named in Rao reshuffle

Rao: move to boost influence

By Stefan Wagstyl in New Delhi

INDIA'S Prime Minister P V Narasimha Rao yesterday appointed a new minister to take charge of foreign affairs. The appointment was part of Mr Rao's wide-ranging ministerial reshuffle designed to bolster his authority in the wake of the Ayodhya crisis.

Mr Dinesh Singh will join the cabinet as external affairs minister, taking a portfolio previously held by Mr Rao himself. He is one of four new ministers; the others include Mr Pranab Mukherjee, new commerce minister, who will strengthen the team responsible for the government's economic reform programme.

The reshuffle was seen in Delhi last night as a successful bid by Mr Rao to boost his influence in the cabinet. But the new men were not expected to bring any immediate significant change in the government's popularity as a whole, nor in its ability to deal effectively with the crisis caused by the destruction of the Ayodhya mosque and the ensuing violence.

Mr Dinesh, 77, is a veteran of the ruling Congress (I) party who first served as a minister in 1962. His appointment will bring into the cabinet a representative from Uttar Pradesh, India's most populous state, where the Congress party is in need of reinforcement, having lost ground to the Hindu Bharatiya Janata party, whose supporters stormed the Ayodhya mosque.

Mr Mukherjee, 57, is moving to the Commerce Ministry from being deputy chairman of the government's Planning Commission. He replaces Mr P. Chidambaram, who resigned over the Bombay security market scandal. Mr Mukherjee, a former journalist, has served before in the Cabinet, including being finance minister in the early 1980s. The two other new Cabinet members are Mr A K Antony, minister for civil supplies, and Mr N K Salve, energy minister.

● In Bombay, businessmen struggled to bring offices and factories back to normal working after the violence that left over 600 dead and paralysed the city for nearly two weeks, writes R C Murthy.

In the port, dockers worked to make room for waiting ships. The Indian Merchants' Chamber, a leading business body, says the city has lost Rs15bn (£339m) in industrial output.

The worst-hit industry is leather, because many workshops are operated by Moslems, the chief victims of the attacks of Hindu-led mobs. Production is concentrated in Dharavi, India's largest slum, where scores of businesses were burned and workers have fled. Mr H R Mallick, vice-chairman of the Leather Export Promotion Council, said it would take months for work to return to normal.

The city's jewellery and gemstone polishing industries are also badly hit because workers were unable to reach factories. An international exhibition, due to be held this week by the Gem and Jewellery Export Promotion Council, was postponed.

Mr K R Subramaniam, a former president of the Bombay Chamber of Commerce, expressed confidence that investment decisions would not be affected in the long run. Britain is pressing ahead with plans for Prime Minister John Major to visit Bombay while on a trip to India next week.

Mukherjee: previous posts

Water row threatens to surface at Turkish-Syrian meeting

By John Murray Brown in Ankara

WATER, which has so often jeopardised Turkey's relations with its Arab neighbours, again threatens to overshadow the talks in Damascus today between Turkish premier Suleyman Demirel and Syrian President Hafez al-Assad. It will be the first trip to Damascus for a Turkish leader since 1987, when Mr Turgut Ozal initialled a joint security pact and guaranteed Syria a flow of 500 cu metres a second where the Euphrates crosses the shared border.

Some success on the security front, especially where Turks see Syria's new willingness to curb rebels of the Kurdish Workers' Party (PKK), has helped pave the way for today's meeting. In April, Ankara revived the security protocol. The two sides also agreed to restart trilateral water talks suspended because of the war with Iraq. But relations continue to be marked by mutual suspicion.

The Syrians will want to use today's talks to press the water issue, vital for 60 per cent of the country's power generation. Turkey has announced plans to start irrigating along the Harran plain from May, diverting more water from the vast Ataturk reservoir.

The Syrians argue that under the existing protocol there is an implicit undertaking for the Turks to negotiate a permanent water settlement once the reservoir is filled.

Ankara continues to resist the linkage between Syria's backing for the PKK and Syria's security concerns over Turkish control of the Euphrates River.

HK legislators voice fears on China talks

By Robert Mauthner, Diplomatic Editor

A GROUP of conservative Hong Kong legislators will today tell British government leaders of their deep concern at the way Sino-British relations have been deteriorating as the result of proposals for greater democracy in the colony.

The legislators, members of the 17-strong Co-operative Resources Centre, are expected to tell Mr John Major, UK prime minister, and Mr Douglas Hurd, foreign secretary, that they would like to see a return to the policy of "convergence" in relations between Britain and China.

Mrs Selina Chow and Mr Howard Young said yesterday their main aim was to see a resumption of the dialogue between Britain and China, which would ensure a smooth transition to the hand-over of sovereignty in 1997.

They were not asking for withdrawal by Mr Chris Patten, Hong Kong governor, of his electoral reform package, the main cause of the trouble, but they would like him to amend it.

"If the British government took the initiative to amend the proposals, that might be the key to the reopening of the dialogue with China," Mr Young said.

The Hong Kong people, caught in the middle of the Anglo-Chinese quarrel, did not relish the prospect of "four-and-a-half years of needless arguments" at their expense.

"At the end of the day, it is the Hong Kong people who have to live with the consequences," Mrs Chow said.

The legislators said that, while they thought Mr Patten had acted with the best intentions, they believed "he might not be getting the best advice". The western form of adversarial politics was not necessarily the best way to handle the Chinese. "To get more, you have to use persuasion," Mrs Chow said.

Flexibility wins friends, Page 16

Beijing urges banks to tighten up on lending

CHINESE leaders, worried that the economy is overheating, have told banks to tighten control on lending to industry, Reuter reports from Beijing.

Premier Li Peng and Vice-Premier Zhu Rongji were quoted yesterday as telling a banking conference that state-run banks this year must help cut money supply and credit, the prime source of inflationary pressure.

Banks should "control not only the size of loans but also issuance of currency," the official Xinhua news agency quoted Zhu as saying. The comments highlight an urgent need for financial reform in China. The banking system was designed to serve the needs of Stalinist-style central planning and lacks the tools to fine-tune an emerging market economy.

Last year, banks ignored government-imposed loan ceilings and poured credit into state-run industry, fuelling an investment boom underpinning 12 per cent growth. Industrial output was up 20 per cent. Since two-thirds of state industry is losing money, many loans will never be repaid.

Manila starts talks on growth plan with IMF

By Jose Galang in Manila

THE PHILIPPINES starts negotiations with the International Monetary Fund tomorrow on a new programme aimed at pushing the economy towards a high-growth plane.

Philippine negotiators, led by Mr Ramon del Rosario, finance secretary, and Mr Jose Cuisia, governor of the Central Bank of the Philippines, will be seeking credits of more than $800m (£526.3m) under the IMF's extended fund facility to support the country's "growth-oriented" economic programme designed to cover the next three years.

The programme is part of the government's plan for a growth of 4.5 per cent in the economy this year, rising to double digits by 1998.

Because of a debilitating electric-power shortage, the economy grew by just 1.5 per cent in 1991 despite heightened optimism brought about by the improved political environment.

The current economic stabilisation programme supported by the IMF involves stringent ceilings on fiscal and monetary expansion. It is due to end in March.

The negotiations are expected to be difficult. Early assessments of the Manila programme indicate strong pressure from the IMF to scale down the growth targets.

IMF analysts had noted that previous high-growth periods in the Philippines were followed by balance-of-payments crises.

Owing to the heavy spendings on infrastructure allocated during the early part of the growth programme, the strategy could fuel inflation later and derail the ambitious scheme, according to some analysts.

However, the Philippine negotiators are expected to press for the programme, because of the need for "a more dynamic investment and overall output performance".

The officials feel that after meeting the strict criteria attached to the current programme, the Philippines should be "in a stronger bargaining position" for the week-long negotiations.

Calm hands take the US trade reins

Nancy Dunne examines the challenges facing Mickey Kantor

WHEN he comes before the Senate finance committee today for his confirmation hearing, Mr Mickey Kantor can claim one attribute possessed by none of the other would-be US trade representatives. As chairman of the Clinton campaign he took his seat on the roller coaster well before his rivals came aboard.

In fact it was Mr Kantor's cool leadership that helped guide the president-elect through his worst crisis: the affair of Gennifer Flowers, the candidate's self-described former mistress.

He is so trusted by Mr Clinton that it was surprising when the president-elect selected others to oversee the presidential transition.

Instead Mr Kantor was given the chore of setting up last month's widely applauded Little Rock economic conference, and he became the only campaign official to be nominated for a cabinet post.

In Washington, where he is little known, the appointment was greeted with some gloom as Mr Kantor has had little experience with trade. One of the kindest remarks made of him since his nomination came from Mrs Carla Hills, the current trade representative, who briefed him and called him "a willing learner". Another senior US trade official dismissed worries: "Trade isn't exactly quantum physics, you know."

Mr Kantor been portrayed in the press as just another lobbyist, whose long list of clients has included NEC, the Japanese electronics conglomerate, Atlanta Richfield, Philip Morris, Occidental Petroleum, and Martin Marietta. It has been suggested that Mr Clinton, who promised in his new order to "put people first", will continue to let corporate interests hold sway in Washington.

Mr Kantor and his friends are likely to find this view ironic. Born in Tennessee, he grew up during the worst school integration battles and became an ardent civil rights supporter.

He began his career as a poverty lawyer, focusing on the rights of migrant farm workers, and founded the Los Angeles Conservation Corps, which is designed to teach discipline to urban teenagers. He was also a member of the Christopher Commission, under the soon-to-be secretary of state Warren Christopher, which was charged with recommending reforms for the Los Angeles Police Department.

Mr Kantor began working for the election of liberal Democrats in California in the 1970s, and supported former Governor Jerry Brown, later one of Mr Clinton's opponents for the Democratic nomination. In 1974 he threw himself into the campaign for former Vice-President Walter Mondale. Among politicians he is seen as hard-working, tough and highly efficient.

His prestige was not boosted by the way in which Mr Clinton chose him as trade representative. He was not included in the economic team, which was the first batch of appointments, and was the last cabinet member to be a named. This came in a last-minute flurry to finish all key appointments by Christmas.

The post reportedly had been offered to Mr Ron Brown, who chose to be commerce secretary and who announced at his confirmation hearing that the Commerce Department would lead the way on trade policy.

Mr Clinton then met Mexican President Carlos Salinas de Gortari and promised to appoint one person to take charge of completing side agreements on the North American Free Trade Agreement.

The Clinton camp, perhaps realising that Mr Kantor had once again been slighted, suggested that the person in charge would be Mr Kantor. Congressman Kika de la Garza, chairman of the agriculture committee, said the new position could be akin to ambassador on Mexican affairs in the State Department.

Intelligent and able as Mr Kantor may be as a legal negotiator, he still has to learn the Uruguay Round portfolio. He is being urged by at least one influential private-sector lobbyist to call for an overall reassessment of the Round, during which he would consult with Congress, business groups and US trading partners. He would then be able to ask for an extension of the fast-track negotiating authority.

Mr Kantor is also likely to face pressure for an early decision on whether or not to retaliate against Japan for its failure to abide by a market-opening agreement on semiconductors.

He will find much on his plate and many critics ready to pounce if he fails to take a firm grip on the trade reins.

Show time: Michael Jackson (left) joins Bill Clinton, his daughter Chelsea and Diana Ross during inaugural celebrations

No rain falling on this parade

Washington is enjoying the party despite Iraq, writes Jurek Martin

THE last time the leader of the "out" party took over the White House, national attention was divided. Jimmy Carter spent most of his last morning as president hanging on the telephone, waiting to hear news from Tehran that the aircraft carrying the US hostages had taken off.

In what was seen in the US as a last, cruel twist of the knife by Ayatollah Khomeini, it was nearly two hours into Ronald Reagan's presidency before the word was received in Washington.

There is a similar sense pervading Bill Clinton's inaugural week, with the US-led coalition engaged in air raids and dogfights in Iraq, with President Saddam Hussein continuing to blare defiance and with President George Bush, looking grim and serious, tucked away at Camp David in Maryland's Catoctin mountains, issuing his final orders.

Mr Clinton, indeed, might well set a record for a new president by having to authorise more offensive action in a distant part of the world within hours of moving into the Oval Office.

But the late night briefings by General Colin Powell and his more carefully phrased public utterances on Iraq are not spoiling his party. If the first two days are anything to go by, this may prove one of the more memorable celebrations of the transfer of power.

Sunday's "reunion" on the Mall, against the floodlit backdrop of the Lincoln Memorial, was everything it was cracked up to be. Surely never has there been a finer fireworks display, rattling windows all across the nation's capital, while not even Mr Reagan, a product of Hollywood, could assemble the galaxy of entertainment stars performing in a president-elect's honour.

Finally, Mr Clinton seemed to catch the sense that he was about to become president. For once he was not operating on what has become known as Clinton Standard Time, in which the timing of all appointments and engagements is strictly notional. He was only four minutes late arriving at the Lincoln Memorial from Charlottesville, Virginia, on Sunday and did not drop in for a chat at McDonald's on his dawn run down Pennsylvania Avenue yesterday morning.

Mr Clinton's words also matched the spirit of the moment. In a mercifully brief speech, he invoked Lincoln's "better angels of our nature" to guide his presidency. Earlier, in Monticello, he was asked by a young boy what cabinet post he would give Thomas Jefferson if he were alive. "I'd make him secretary of state, then Al and I would resign, so he could become president again," he said. Mr Gore, more predictably, talked of Jefferson's environmental qualifications.

Yesterday was Martin Luther King Day, a national holiday in most of the country. The great civil rights leader had delivered his immortal "I have a dream" speech from the steps of the Lincoln Memorial, and yesterday morning Mr Clinton paid further tribute to him in an address at Howard University, Washington's overwhelmingly black college.

His widow, Mrs Coretta Scott King, had her mind on something else yesterday as she criticised the raids on Iraq. Perhaps it was her way of reminding Mr Clinton that there is a real and troubled world out there that not even the most fabulous of Washington parties can conceal for more than a few days.

Uruguay Round talks await signal

By Frances Williams in Geneva

THE Trade Negotiations Committee, the most senior negotiating body of the Uruguay Round of trade liberalisation talks, will today formally take stock of the six-year-old talks on the eve of President Bill Clinton's inauguration.

Resumption of talks now awaits a signal from the new administration in Washington.

Although US and European Community negotiators did not make the necessary breakthrough in their last-minute dash for the line before President George Bush leaves office tomorrow, EC officials said yesterday there was a basis for a Uruguay Round settlement.

"The beginning of March or some weeks beyond that is now a realistic working hypothesis," a senior EC negotiator said, referring to the March 2 deadline for submission of a Uruguay Round pact to the US Congress under the administration's current negotiating authority.

US officials have implied that, if President Clinton requested it, Congress might be prepared to grant the talks an extension, although this could not go beyond the end of May, when the negotiating mandate expires.

The Clinton administration would then have to seek a new mandate, which would almost certainly mean changes to the Uruguay Round agenda and another long delay before the 108-nation talks could be completed.

EC negotiators have consistently pressed for an early deal but might welcome a short delay until after French elections in March. The French government has threatened to veto the Uruguay Round package, which embodies a farm trade deal it opposes.

Liberalisation of South Korea's rice market, as proposed in the Uruguay Round of global trade talks, would threaten the survival of many of the country's 6m farmers, a delegation from the country's National Assembly said yesterday, writes Frances Williams.

Six deputies have been in Geneva to lobby key trade negotiators, as well as Mr Arthur Dunkel, director-general of the General Agreement on Tariffs and Trade, on South Korean opposition to "tariffication without exception". This proposal would oblige countries to convert all farm import barriers into tariffs, which would then be gradually reduced.

Cuba to offer oil licences

OIL-STARVED Cuba, which is trying to develop its domestic oil deposits, will next month offer 11 onshore and offshore blocks for exploration and development by foreign companies, Reuter reports from Havana.

It will be the first international tender of its kind by Cuba, which has suffered severe oil shortages since the collapse of its preferential trade links with the former Soviet Union.

The Cuban state oil company Cubapetroleo (Cupet) announced that the tender inviting bids would be officially presented in Calgary and London on February 10 and 17 respectively.

On offer for production sharing contracts were seven onshore and three offshore blocks, with one block straddling land and sea. Foreign oil companies had until August 1 to present their bids. A British company, Simon Petroleum Technology, would help organise the tender.

Cupet officials said the blocks were in various parts of the island, including one in the western province of Pinar del Rio and another in south-eastern Granma province. These were areas which were either unexplored or where past exploration data were now out of date, the officials said.

A second tender offering more exploration blocks was planned for later.

Over the past two years, Cuba has awarded contracts for seven exploration blocks.

Italians to build Tube link

By Haig Simonian in Milan

ITALSTRADE, the civil engineering arm of Italy's IRI state holding company, has signed a letter of intent for a L80bn (£35m) contract to build parallel tunnels beneath the Thames for a crucial section of London Underground's £1.7bn Jubilee Line extension.

The 2.5km tunnel, linking the new Canary Wharf Tube station with that at Canada Water on the south bank of the Thames, will pass 35 metres below ground level. Construction, which involves Italstrade and two smaller Italian building groups, will take four years.

Italstrade, Italy's second biggest civil engineering group, has also given details of three other important contracts not previously announced.

Work has begun on the L300bn extension to Tangiers of the Casablanca-Rabat motorway in Morocco. In Turkey, the company has won a L285bn contract to build the Berke dam on the country's border with Syria; while in Romania, construction recently started on a L240bn terminal building for Bucharest airport.

Italstrade has been short-listed for a second Jubilee Line contract from London Underground for a parallel 2.85km tunnel from London Bridge to the new Canada Water station.

The $63m deal would take just under four years to complete.

Chile closes book on pioneering debt-swap experiment

Foreign investors are now free to rethink their strategies, writes Leslie Crawford

HAPPILY for Chile's central bank, the growth of direct foreign investment and the strength of the economy have done away with the need for special incentives such as debt-equity conversions. But the effects of the pioneering scheme are still working their way through the Chilean financial system.

The bank is expecting a significant increase in profit remittances this year after relaxing the rules for foreign investors who acquired Chilean assets through such swaps.

Contrary to expectations, the central bank is relishing the prospect of a wider current account deficit – forecast to double to 3 per cent of GDP in 1993 – to ease a dollar glut which is putting pressure on the exchange rate and complicating monetary management.

Chile's net international reserves climbed from $6.6bn to $9bn (£5.9bn) in 1992, enough to cover a year of imports and equivalent to roughly half its foreign debt. The dollar bounty – product of a healthy trade surplus and net capital inflows – was inconceivable during the lean 1980s, when Chile pioneered debt-equity swaps to lighten its foreign debt. Between 1985 and 1991 Chile retired an estimated $10.5bn of foreign debt through debt conversions, most into equity in Chilean companies.

To help nudge some of the dollar inflows out of the country, the bank has lifted all restrictions on the repatriation of capital and profits, subject to a 3 per cent exit fee on the original value of the debt-equity swap. Previously these investments were subject to a four-year wait for profit remittances, while the capital was tied in Chile for 10 years.

However, remarkably few multinationals appear so far to be taking up the offer. Unless a parent company is in financial straits at home, multinationals have chosen to plough profits into their Chilean businesses, which have been providing handsome returns. The central bank's "very rough estimate" for 1992 places net reinvested profits at up to $700m, of which $400m correspond to debt-equity investments.

Another rough estimate places the stock of foreign direct investment in Chile within the $10bn-$13bn range – roughly 30 per cent of GDP. About $4bn of this was acquired through debt-equity conversions.

Bankers Trust, one of the earliest and most successful debt-swappers, has also been the first this year to call in part of its investments. In January Bankers Trust sold its majority stake in AFP Provida, the largest private pension fund in Chile, to local investors for $53.1m. It originally bought a 60 per cent share in AFP Provida for $9m in 1986, and later sold part of this to Chemical Bank and the Bank of Tokyo. The three banks say they will repatriate $44.5m abroad. The remainder will be reinvested in their fast-growing life-insurance business.

The greater freedom conferred to debt-swappers has also prompted some foreign investors to rethink their business strategies in Chile.

Citibank, which converted $145m of its own Chilean debt paper to invest in forestry, fishing and mining ventures, has now put many of these up for sale to expand its local financial services. Mr Carlos Fuks, Citibank's general manager in Santiago, says all the proceeds will be reinvested in Chile. Only a small portion of debt-swap profits will be remitted, for the first time, in 1993.

Citibank took the unusual step for a bank of investing in new productive ventures – the biggest was a $460m pulp mill in partnership with Royal Dutch/Shell and Scott Paper of the US. Other foreign banks chose to buy into local banks, life insurance companies and private pension funds. Many built up stakes in Chile's privatised companies or simply gambled on the stock exchange.

"It would have been more profitable to get into equities," Mr Fuks reflects. "In retrospect, our debt-equity swaps benefited Chile more than they did our bank."

Although debt-swaps were authorised freely to finance everything from the Mormon church to Pepsi Cola bottling plants, perhaps the greatest impact of the programme has been in the development of the pulp and paper industry.

Three new pulp mills costing $1.5bn have entered production since 1991. All of them included debt-equity conversions as a key part of project finance. The New Zealand forestry group Carter Holt Harvey, which came to Chile in 1987 with a $164m debt-equity deal, once described its Chilean assets as its "most profitable off-shore investment".

Another New Zealand group, Fletcher Challenge, acquired a newsprint mill in 1987 using $130m of Chilean debt paper bought at a 34 per cent discount.

Mr Bryce Whitcher, Fletcher Challenge's representative in Santiago, says the discount made the transaction attractive and the risk acceptable.

"It is difficult to be certain whether any investment would have been made without the debt-swap," he says. "There was and still is a strategic fit to our other forest investments, but it may not have been of the size or at the time of the actual investment."

Despite its success, Chile's use of debt-equity swaps had detractors from the start. Mr Ricardo Ffrench-Davis, a former central bank director of studies, estimates foreign investors were subsidised to the tune of $1bn by buying Chilean debt paper at a discount on the secondary markets and exchanging it at near face value for pesos in Chile.

"While it is true that swaps helped reactivate confidence and investment in Chile, this was done at a very great cost to the country," Mr Ffrench-Davis says. "No thought was given to which sectors of the economy would most benefit from debt-equity conversions. The subsidy was handed out with no criteria."

Central bank officials say privately they never felt comfortable as guardians of this huge subsidy for foreign investors. More than 300 swaps were approved between 1985-90, and keeping tabs on all the money proved an impossible task. The central bank knows of several cases of fraud which it cannot prosecute due to lack of evidence. Nor have they wished to create unnecessary hostile waves for the majority of bona-fide investors.

While Chile is closing this chapter, other countries in the region are still actively using debt-swaps as an integral part of their privatisation programmes.

Argentina has cancelled $12bn of debt through debt-equity conversions in the past three years. Peru is also studying the Chilean model as it puts its own privatisation programme into gear.

Haiti military agrees to talk on democracy

By Canute James in Kingston, Jamaica

HAITI'S military rulers have yielded to growing international pressure and say they are willing to discuss the restoration of democracy in the country. Until now, they have resisted efforts to restore the Caribbean republic's elected president since a coup nearly 16 months ago.

The change in the military's position, indicated in a letter from General Raoul Cedras, the army chief, to Mr Dante Caputo, a United Nations special envoy, still leaves unclear whether the army leaders will agree to retire. Their departure from the army is one of the persistent demands of Father Jean-Bertrand Aristide, Haiti's exiled president.

The military has made its apparent concession in response to the UN's increasing role in trying to have Fr Aristide restored to the presidential palace, following a year of failed efforts by the Organisation of American States.

Diplomats in Port-au-Prince, Haiti's capital, said yesterday that Gen Cedras's decision – over the objections of Mr Marc Bazin, the army-appointed prime minister – was the result of a growing realisation that the UN would adopt stronger measures against the country, including the tightening of the economic embargo.

Mr Caputo said Gen Cedras had agreed to the deployment of an international observer force in Haiti, and to the start of discussions on ending the crisis. Those discussions are likely to deal with the appointment of a mutually acceptable interim prime minister and the conditions under which Fr Aristide can return to the country.

Army leaders have previously insisted privately that Fr Aristide would not be allowed back into Haiti "under any conditions."

Aides of the deposed president have said he wants the Haitian military to accept an agreement brokered just under a year ago for the appointment of an interim premier, which was scuttled when soldiers threatened legislators before they could ratify it.

A solution of Haiti's political crisis will be high on the foreign policy agenda of US President-elect Bill Clinton, who is concerned about a flood of refugees. Both he and Fr Aristide have told Haitians to stay at home and the US coast guard has tightened its cordon against refugees from Haiti.

Said one diplomat: "To get the army to go along with any plan which will put them out of effective control while restoring Mr Aristide will take some doing."

Honda in motorcycle tie-up with Piaggio

HONDA of Japan yesterday moved to strengthen its position in the European motorcycle market by announcing an alliance with Piaggio, the Italian manufacturer, writes Charles Leadbeater in Tokyo.

Piaggio, which makes the Vespa scooter as well as mopeds, motorcycles and small commercial vehicles, is Europe's largest maker of motorcycles.

Honda, which already has a wide-ranging technical collaboration with Peugeot of France, is the world's leading motorcycle manufacturer, with a world market share of about 40 per cent. It sells about 3.5m motorcycles a year worldwide, made in 33 plants.

Motorcycle sales, particularly the strong growth in exports to the rest of Asia, have helped Honda weather the downturn in its Japanese car sales.

Under the basic agreement between Honda and Piaggio, working groups will be set up to examine product development for the European market. "The objective is to establish a collaborative working relationship focused on new product development in small and mid-sized motorcycles," said Honda.

The Japanese company will also provide some key components for Piaggio, such as engines for the company's Gilera range of motorcycles.

The two companies also plan to co-operate in the design, manufacture and procurement of standardised parts for use in their motorcycles for the European market.

Ecuador seeks to entice investors

ECUADOR'S sweeping reform of investment regulations last week has opened all sectors of the economy to foreign capital.

Direct foreign investment will be treated under the same conditions as national capital and will no longer require prior government approval, while profits can be freely expatriated and converted into hard currency.

Under the new law, which replaces one enacted in June 1991, all transfers of company shares will automatically be approved by the Ministry of Industry, opening the way for foreign acquisitions of domestic companies.

Mr Mauricio Pinto, minister of industry, commerce and fisheries and one of the driving forces behind the new law, says sectors which have been completely opened up to foreign investment include the public services, banking, telecommunications and insurance.

Banking, for example, had been limited to 49 per cent foreign ownership.

While many observers of the Ecuadorean economy acknowledge that the new law is a big step towards liberalising foreign investment, they are cautious.

Mr David Edwards, an economist at the US embassy in Quito, says some issue have not been addressed by the regulations, including price fixing in the pharmaceutical industry, weak copyright protection, and the macro-economic climate.

While he does not see US investors rushing in to the Ecuador market, he says US companies have expressed interest in the telecommunications industry.

He also expects Colombian and Venezuelan investors to buy majority shares in Ecuador's banking industry; they have already acquired minority stakes in recent months.

According to Mr Carlos de la Paz of the British government's Overseas Trade Service, companies such as British Petroleum and British Gas, which left Ecuador in 1990 and 1991 respectively, may now reconsider returning.

"Some British mining companies will be happy," he says. Above all, he adds, the new regulations are a sign that the government is heading in the right direction.

One issue the new regulations do not address is the unequal tax structure.

While domestic companies are taxed at a flat 25 per cent, foreign companies pay an additional 11 per cent on remitted profits and in some cases more. Reforming the tax structure would require congressional approval, but Mr Jose Villacis, an economist at the sub-secretary of commerce, expects a law to be passed soon.

Raymond Colitt

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Labour split on Maastricht treaty tactics

By Philip Stephens and David Owen

THE government's hopes of pushing through legislation to ratify the Maastricht treaty were given a significant boost yesterday as splits emerged in Britain's opposition Labour party over the bill endorsing closer EC integration.

As the legislation returned to the House of Commons yesterday for another three-day session of line-by-line debate in its Committee stage, prominent pro-Europeans on the Labour benches challenged their party's official policy.

The government can ensure the passage of the bill only if it wins a series of "closure motions" to limit debate on the hundreds of wrecking amendments proposed by Euro-sceptics in the Conservative party. Labour policy has been to join with the rebels to oppose such motions.

But a number of pro-European Labour MPs are now warning that the party's tactics risk undermining its European credentials.

Skilful handling of the bill by Tory party managers and the tacit support of smaller parties has so far allowed the government to win closure motions on two of the 25 groups of amendments which must be debated in the Committee Stage.

At the same time, the successful outcome of the Edinburgh summit has intensified the unease of Labour supporters of the treaty about being seen as allies of the Tory Euro-sceptics.

More than 85 Labour MPs last month signed a parliamentary motion calling for the "rapid completion" of the Maastricht treaty's ratification. Many of them now want the party leadership to abstain on closure motions as long as the government continues to give reasonable time to debate the bill.

The divisions are expected to emerge publicly tomorrow at a meeting of the parliamentary Labour party. The pro-European MPs believe that they can rely on the support of less committed colleagues who have already become exasperated at being forced to remain constantly in the Commons simply to be on hand to vote against closure motions.

Mr John Smith, the Labour leader, is expected to oppose any formal shift in the party's position. But leading Labour MP predicted last night that support for the official line was likely to "melt away."

Debate yesterday moved to industrial policy, with Labour choosing to highlight Britain's poor record on unemployment compared with its European partners.

Challenging the government to explain how it defined industrial policy, Labour spokesman Mr Derek Fatchett argued the free market had failed in the 1990s. "The role of government intervention is back on the agenda," he said.

CBI survey dampens hopes of retail recovery

By Emma Tucker, Economics Staff

BRISK RETAIL trade in the last few days before Christmas failed to lift December sales above levels of a year ago, according to the Confederation of British Industry, the UK employers' organisation.

The CBI distributive trades survey published today contradicts anecdotal evidence of a boost to shop sales last month, showing instead that, overall, many retailers had a disappointing Christmas.

Mr Nigel Whittaker, chairman of the CBI's distributive trades panel said the results were an improvement on recent months, and that sales were expected to be up on a year ago this month.

Sales are now reported to have fallen on a year-on-year basis for three successive months. In December, the balance of retailers reporting an increase in sales minus those reporting a decrease was -4 compared with +5 in December 1991. In November the balance was -9.

The CBI noted a marked discrepancy between the performance of big retailers, who indicated sales were up, and small retailers - employing less than 200 people - who did badly. It also believes consumers have become more discerning and may have been waiting for the January sales before making significant purchases.

Specialist food shops, off-licences, bookshops, stationers and DIY retailers were among those who suffered a particularly dismal month. Off-licences said sales had declined significantly year-on-year for five successive months.

Business was better for confectioners, tobacconists, newsagents, chemists and clothing retailers whose sales were higher than in December 1991. The survey, conducted between December 16 and January 6 is the first indication that Christmas sales did not live up to expectations.

Mr Whittaker said: "Consumers are cautious and are looking our for bargains. The cuts in interest rates in the Autumn have not had their full impact on spending."

Official figures tomorrow are expected by economists to show a small increase on the month, but a more substantial rise - around 2 per cent - on the year.

The CBI said motor trades had the best month in December, with sales increasing against expectations. Although sales for the time of year continued to be poor, they improved on November with sales of vehicles increasing.

Wholesalers reported a year-on-year decline in sales for the third successive month. The survey said they were able to reduce stocks in December following cuts in orders placed with suppliers.

Northern businesses see signs of upturn

By Our Regional Staff

A SLOW recovery has started in the northern counties of Yorkshire and Humberside, according to a survey of business performance carried out by the region's chambers of commerce.

Similar surveys in north-east England and Cumbria, and in the east Midlands, also reveal a modest increase in sales and orders during the last quarter of 1992, repeating the experience of companies, reported by regional chambers earlier this month, in north west England, the west Midlands and north Wales.

Yorkshire and Humberside, with the largest regional canvass of companies - 1,464 of them - said the return of orders to the levels recorded just after last April's general election could mean "some economic recovery in 1993, barring any minor setbacks."

But in the north-east, the Northern Development Company and the Teesside and Tyne and Wear chambers noted that business performance is still some way below the levels achieved during the first half of 1992.

The surveys also reveal improved export prospects, most notably in the north-east and Cumbria where, of the 769 companies responding, 47.8 per cent reported higher sales.

Yorkshire and Humberside chambers attributed the stronger export trend to sterling devaluation but warned that, the slowdown in Germany, the region's largest export market, meant this may not last.

Such caution mirrors that of the Birmingham business group of the Confederation of British Industry which recently reported that a higher flow of orders was coming from the US and the Far East, rather than continental Europe.

Towns and villages across Scotland were yesterday struggling to cope with serious flooding following a rapid thaw after weeks of freezing weather. In Perth (above) many residents were evacuated and boats were used to rescue motorists trapped in their cars

Government names first rail regulator

By Richard Tomkins, Transport Correspondent

THE government yesterday chose a lawyer and a former merchant banker to take two positions at the centre of its plans for implementing the privatisation of British Rail, the state-owned railway.

They are Mr John Swift QC, an expert in competition law, who is to become the Rail Regulator, and Mr Roger Salmon, a former director at N.M. Rothschild merchant bank who is to become the Director of Passenger Rail Franchising.

Mr Swift will play a key role as Rail Regulator, ensuring that train operators - passenger and freight - get fair access to the railway tracks at an acceptable price. He will also be responsible for protecting rail passenger's interests.

Mr Salmon will be responsible for franchising private sector companies to take over the operation of BR's passenger services and making sure they fulfil their obligations once the franchises are awarded.

The appointments follow the government's decision last month to install Mr Bob Horton, former chairman of British Petroleum, as vice chairman of BR with special responsibility for setting up Railtrack, the state-owned authority which will own BR's tracks.

Completion of these key appointments further emphasises the government's determination to press ahead with rail privatisation in spite of sharp criticisms of its plans from opposition parties and some Conservatives.

Charities Aid Foundation welcomes 'staggering sum'

Sainsbury gives trust £200m

By Guy de Jonquières, Consumer Industries Editor

MR DAVID Sainsbury, chairman of the J. Sainsbury supermarket chain and one of Britain's richest men, has given shares in the company worth £200m to the Gatsby Charitable Foundation, a grant-making trust which he has funded since 1967.

The donation, from Mr Sainsbury's personal holding, is believed to be by far the largest UK charitable contribution by a private individual in recent times. It was described as "a staggering sum" by the Charities Aid Foundation, which monitors charity finances.

The Gatsby Foundation disbursed about £15m last year, making it Britain's third largest grant-giving trust measured by spending. Yesterday's donation of 35.6m J. Sainsbury ordinary shares - roughly 2 per cent of the company's equity - will increase its capital to about £500m.

Named after F. Scott Fitzgerald's novel *The Great Gatsby* - the tragic tale of an ostentatious American parvenu whose fortune stemmed from shadowy origins - the trust finances a wide range of activities close to the 52-year-old Mr Sainsbury's personal interests.

They include management and technical education, African development programmes, support for disadvantaged children, economic and business research, health care and plant science. The trust is a leading supporter of the Centre for Business Strategy at the London Business School, where Mr Sainsbury is chairman of the board of governors.

The trust is the largest of several charitable organisations founded by members of the Sainsbury family, which have total assets of about £1bn. Three of Mr Sainsbury's cousins helped finance the construction of the National Gallery Extension in the 1980s.

The Gatsby Foundation has pledged to retain its J. Sainsbury shares as an investment. They currently pay an annual dividend worth about £4m.

Mr Sainsbury, who became chairman of the company in November, will remain the wealthiest member of the family with a personal holding of 312.5m shares - 17 per cent of the company's equity - after the donation.

Companies obsessed by cost-cutting says survey

By Andrew Taylor,

BRITISH manufacturers are obsessed with cost-cutting and are failing to invest sufficiently in research and development according to a survey published today.

The survey of more than 200 managing directors and technical directors warns that Britain is in danger of squandering improvements in productivity and quality through not paying enough attention to product development.

Computervision, the manufacturing design company which conducted the survey of companies with more than 300 employees, said that most manufacturers identified research and development as a cost rather than an investment.

A third of those questioned said cost-cutting was the most important issue facing their business.

Mr Garreth Evans, Computervision's managing director of managing director, said lack of investment was the biggest obstacle facing manufacturers.

"Firms see themselves as vulnerable on research and development and the use of advanced manufacturing technology relative to Germany's performance," he said.

Almost 75 per cent of manufacturers declared themselves "fully prepared" for the single European market, with 89 per cent of companies already selling or planning to sell goods in other EC markets.

Code planned on EC jobs and pay law

By John Willman, Public Policy Editor

THE government is planning to publish a clear and definitive explanation of how EC legislation protecting the jobs and pay of workers in mergers affects the contracting-out of public services, Mr William Waldegrave said yesterday.

Mr Waldegrave, the public services minister, was addressing a conference organised by the Cabinet Office to involve business in the government's market-testing programme.

Doubts over whether the EC legislation applies have cast a shadow over the programme, which will put £1.5bn of civil service work out to tender by the end of September.

A series of judgments in the European Court of Justice has extended the scope of the EC legislation to contracting out.

Experts in employment law have warned that companies which win contracts to provide public services are likely to be covered by the Transfer of Undertakings (Protection of Employment) Regulations 1981 - known as Tupe. This would make it harder for them to sack workers.

Mr Waldegrave told the conference that the Tupe regulations had not hindered market-testing in the past, nor would they in the future.

He warned that whether the regulations applied to any contract depended on the particular circumstances of the case. Companies bidding for work should take legal advice on whether they applied in each case.

Yesterday's conference - attended by more than 500 business executives - was picketed by civil service trade unions. Mr John Ellis, secretary of the Council of Civil Service Unions, described the programme as the "biggest car boot sale ever held".

The unions warned that they would oppose the market-testing programme which exposes the jobs of over 44,000 civil servants to competitive tendering. The CCSU said it would use the Tupe regulations to ensure that contractors maintain civil service pay and conditions.

Mr Waldegrave, however, challenged the assumption that all contracting-out involved cutting the pay and conditions of the workforce. "Many existing transfers where Tupe does apply have still proved worthwhile for contractors," he said.

International commission seeks proposals on Ulster

By Jimmy Burns

AN international commission of inquiry seeking ways forward on Northern Ireland begins three weeks of public hearings today in Belfast.

The commission is chaired by Professor Torkel Opsahl, a leading international human rights lawyer and United Nations adviser.

Other members include Mr Eamonn Gallagher, the former EC director general of fisheries, and Lady Faulkner of Downpatrick, a former BBC governor for Northern Ireland, whose husband Brian was the last prime-minister of the Stormont assembly.

The idea for the commission came from Initiative '92, an independent non-political group formed two years ago by Mr Simon Lee, a law professor at Queen's University, Belfast, and Mr Robin Wilson, the editor of Fortnight, a local current affairs magazine.

The commission has funding from several charity groups led by the Joseph Rowntree Trust, Barrow Cadbury, the Northern Ireland Voluntary Trust, and the Nuffield Foundation.

Anthony Cowgill: seeking a political hearing for industry

Industrial alliance improves political links

Peter Marsh examines the work of a foundation aimed at promoting growth

AN ALLIANCE of 21 big British companies including Imperial Chemical Industries, Marks and Spencer and Rolls-Royce has emerged as a force trying to insure that UK policies encourage growth.

Senior managers from the group have quarterly meetings at 10 Downing Street with Mr Gus O'Donnell, Mr John Major's press secretary, at which they pass on views about actions they would like from the government.

The group, the British Management Data Foundation, is the brainchild of Mr Anthony Cowgill, a 77-year-old former army officer who founded it in 1980.

Members include Shell UK, Wellcome, Allied-Lyons, ICL, British Gas, National Power, TI Group and Lucas. British Petroleum, Unilever and British Aerospace, while not part of the foundation, sometimes send people to meetings.

News of its largely unpublicised activities comes as industry steps up its efforts to win a bigger voice in government after several years of complaining that policies do not value manufacturing highly enough.

In a meeting with Mr O'Donnell in November, the foundation pressed for long-term efforts to make government officials more sympathetic to manufacturing, as well as for cuts in interest rates. Mr O'Donnell said notes from the meetings were passed to Mr Major.

The group last year met Mr Michael Heseltine, trade and industry secretary, to discuss how to promote industrial innovation. It has recently started a discussion with Mr Alan Budd, the Treasury's chief economic adviser, in an effort to build on the Treasury's initiative to foster better links with industry.

Members also have called for government action on education and training to boost the numbers of young people who know about technology.

In the past three months, the group and other organisations putting similar views have seen their efforts at least partly rewarded.

Mr Norman Lamont, the chancellor, unveiled a modest package of measures to help industry in the November Autumn Statement, while Mr John Major has stressed that the March Budget should follow similar principles. The prime minister has also talked about making the civil service more sympathetic to industry.

"We are beginning to see a more receptive approach by the government," says Mr Cowgill. "And on the part of industry there has also been a change, with less whingeing and more selectivity about the things it wants from the politicians."

The former brigadier, who set up the foundation in 1980 after taking over an existing engineering study group, said the foundation's main role is to set up meetings involving its member companies and the government. There were about 40 such gatherings last years, most of them receiving little or no publicity.

Taking part in these talks normally are senior managers rather than company chairmen or main-board directors. As a result, industry representatives do not necessarily have to repeat company views, but say what they really think about specific issues.

In keeping with this goal of encouraging dialogue rather than pushing fixed ideas, Mr Cowgill does not like to call himself a lobbyist. He prefers the term "illuminator of facts".

Mr Cowgill describes his organisation - which provided him with a £35,000 salary last year - as a "Mickey Mouse outfit." He runs the foundation from a converted garage in his home in Gloucestershire, western England.

Mr Richard Freeman, chief economist at ICI, says: "It has provided people in industry access to people at high levels in government they would not otherwise meet."

Membership of the group costs £5,000 a year and is by invitation of Mr Cowgill. It features a range of companies representing many different sectors.

According to Mr Malcolm Edwards, former marketing director of British Coal and now an independent energy adviser, the most recent Downing Street discussions had a big effect on influencing Mr Major to come out with statements asking banks to reduce the cost of business loans by passing on to customers a bigger proportion of recent base rate cuts.

As for his own views about industry, Mr Cowgill thinks Britain has become too involved with the rest of Europe and that politicians should spend more time making sure UK businesses can compete on a global scale.

He says Britain should refuse to sign the Maastricht treaty and was delighted when Britain left the European exchange rate mechanism, which he says was keeping the exchange rate and also interest rates at an artificially high level.

"Sometimes I walk a tightrope, especially when I am in a discussion with the government," he says. "But normally I try to keep in the background and let others do the talking."

Britain in brief

Patten plans shake-up in education

Radical reforms to primary education in England, including the streaming of pupils by ability and an overhaul of primary teacher training, have been announced by Mr John Patten, education secretary.

They mark a further stage in the government's assault on "progressive" teaching.

Mr Patten is writing to all 19,000 primary schools in England urging them to "achieve a better match of work to children's needs." His "five-point plan" includes greater use of "whole class" and specific-subject teaching, the introduction of streaming by subject where possible, and the grouping of children by ability where not. This is the first time the government has sought to make streaming at primary level a matter of national policy.

Support for Indian trip

Mr John Major won support from industrialists for taking senior businessmen on his India trip next week - a move described by Downing Street as part of efforts to create UK jobs and promote co-operation.

One delegation member, Mr Howard Davies, director general of the Confederation of British Industry, hailed the trip was symbolic. "To find a bit of prime ministerial time spent on promoting exports in a very large but difficult market is something which cheers people up," he said.

Guinness files "went missing"

Documents relating to the £5.2m allegedly stolen from Guinness by Mr Thomas Ward, the US lawyer, went missing after his attorney went through files on Mr Ward's transactions, an Old Bailey jury has been told.

The files were held in the offices of Mr Michael Dee, a Jersey-based company administrator who looked after Marketing and Acquisition Consultants Ltd, MAC, a company owned by Mr Ward, the court was told. Giving evidence, Mr Dee said that in December 1986, Mr William Dwyer, Mr Ward's attorney, had been allowed to review the files on MAC. He was left alone in Mr Dee's offices for a hour or two to do this.

When Mr Dee next looked at the files there were "one or two" documents he could no longer find, he said.

These included a file note recording Mr Ward's instructions to transfer £3m of the £5.2m to the Swiss bank account of Mr Ernest Saunders, the former Guinness chief executive, he said.

Mr Ward is charged with the theft of the £5.2m from Guinness, and single charges of false accounting and executing a valuable security in connection with the alleged theft. He denies all the charges. The trial continues today.

Nationwide closes agencies

Nationwide, the UK's second largest building society, says it is to close 58 of its 361 estate agency branches with the loss of 300 jobs, after a year-long review of its estate agency business. The society, which has a high ratio of costs to income compared to other societies, says the move indicated its continued confidence in the rest of its estate agency business, which last year lost £12m.

Lawyers plan to save £43m

The Law Society and the Bar have put together a package of cost-cutting measures designed to replace the Government's proposed cuts in legal aid eligibility. The proposals are calculated to save £43m - the savings in the legal aid budget the Lord Chancellor has said he must find to meet Treasury targets.

Hoteliers are more optimistic

The proportion of UK hoteliers who think recovery has begun increased to 27.1 per cent in the last quarter of 1992, compared with 13 per cent in the previous quarter, according to Horwath leisure consultants.

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In spite of improvements, banks still fail small business customers. **Charles Batchelor** looks at the commercial relationship in which normal rules do not seem to apply

Calling lenders to account

Hire a car and the rental companies fall over themselves to win your business and make you feel a valued customer. Hire money from a bank and somehow the normal commercial relationship does not apply. The customer pays – though he will not be invoiced in advance – but is often left with the feeling the bank is providing a favour and not a service.

Clearly banks are different from car hire companies. The commercial relationship endures far longer; the product on offer is converted into other, sometimes negative, assets by the customer; and, on top their duty to shareholders, banks have a responsibility to their depositors.

The uneasy relationship between the banks and a sizeable minority of their small business customers has provided fuel for an acrimonious debate which has rumbled on for the past five years. It was given fresh impetus by the publication last week of a new study* of the banks – the fifth in a series – by the Forum of Private Business.

The forum, normally the most pugnacious of the small business lobby groups, took pains to stress the improvements which have occurred and to emphasise the need for a constructive debate.

The study, carried out by a team from Nottingham University, found that there was no foundation to the oft-repeated claim that the banks had not passed on base rate cuts to customers. There was also a greater differentiation in the quality of service offered which the forum took as proof the banks did not operate a cartel. Barclays ranked most highly for the quality of service to small businesses while Lloyds lagged a poor fourth.

But beneath this rather optimistic gloss the survey comes to some worrying conclusions about the banks' performance. There are still "substantial weaknesses" in the banking relationship and indications that, in the event of economic recovery, banks would not be well placed to respond to an increase in demand for funds from businesses.

Bank charges, interest rates and the banks' demand for collateral remain important constraints on small firms, said Martin Binks, head of the research team. The publication of business charters and tariff cards by the larger banks has helped businesses calculate their likely charges. But there remains "genuine pessimism" about the overall impact of the charters on bank attitudes, the survey reported.

For reasons which were not clear to the researchers, the Scottish Banks – Royal Bank of Scotland, Bank of Scotland and Clydesdale – outshone their English counterparts in the quality of service provided.

Possible reasons include the fact that the Scottish banks are smaller, easier to manage and can afford to be more selective in their choice of customer.

Most worrying, given the efforts the banks say they have made to improve matters, was the view among small businesses that the quality of the banks' service had declined since 1990.

The reason for this, according to Jane Bradshaw, head of small business services at National Westminster Bank, was that the recession had obscured the progress which had been made.

NatWest has increased training programmes to familiarise managers with the problems facing small business, freed staff from administrative duties to concentrate on customer relations and improved the service provided in specialist areas such as franchising, Bradshaw points out.

However much the banks improve their services they will always suffer from the fact that they have to refuse finance to some of the people who ask for it, she says. And, she notes, any survey of banking issues will inevitably highlight bank-related problems.

There may be some truth in this last assertion but the banks' usual defence – that the banking horror stories which have received publicity are anecdotes without statistical significance – is no longer tenable.

The banking relationship

★ Below average
★★ Average
★★★ Above average

	Barclays	Lloyds	Midland	National Westminster	English banks	Scottish banks
Bank manager helpful	★★★	★	★★	★★★	★	★★★
Bank manager receptive to contact	★★★	★	★	★★★	★★	★★
Bank manager interested in my business	★★★	★	★	★★★	★	★★★
Confident in advice from bank manager	★★★	★	★★	★★★	★	★★★
Confident that manager understands small business	★★★	★	★★★	★★★	★	★★★
Intimidated when dealing with bank	★★	★★	★★	★★	★	★★★
Bank manager comes forward with positive suggestions to help my business	★★★	★	★★	★★★	★	★★★
Rely on manager to find ways of meeting changing financial needs	★★★	★	★★	★★★	★	★★★
Manager willing to offer non-standard products	★★★	★	★★	★★★	★	★★★

The forum survey covered more than 6,000 businesses and provides a valid cross-section of the small business community.

At the same time banks like NatWest claim that their own customer surveys indicate very high levels of satisfaction. A survey on behalf of all the main high street banks among start-up companies showed 92 per cent rated the banks' service as quite or very good.

One of the most common complaints of recent months – that the banks have reduced loan facilities across the board – is not confirmed by NatWest's figures, says Bradshaw. In the 15 months to September 1992, NatWest increased the overdraft facilities available to 39 per cent of its customers and reduced them for only 22 per cent.

This view appears to be supported by the latest NatWest/Small Business Research Trust survey which found that access to finance ranked only eighth among the problems facing small firms, well behind issues such as lack of turnover – the frontrunner cited by 44 per cent of small firms questioned – and cashflow difficulties (12 per cent).

Further light on this aspect of the banks' behaviour will be shed by a Treasury review of the small business loan market to be published in the next few weeks.

This finding is perhaps not surprising in a recession but many in the business community are concerned that the banks will not be able to meet demand for finance when the upturn comes. "Managers are becoming more risk-averse," says Alastair Winter of the Bank Relationship Consultancy**, one of a number of specialist consultancies which have sprung up to help businesses deal with their bank.

The banks are poor at assessing risk and managers often seem unable to distinguish between a sound and an unsound business proposition, says Philip Doggett of Business Banking Review†.

The banks, for their part, are quick to point out that a banking relationship is a two-way affair. The forum study found that 70 per cent of small businesses were aware of the need to provide the bank manager with timely and regular management information. How often this awareness is put into practice is another matter but it does indicate an increased sophistication on the part of businesses.

However hard the banks work on improving their services, they are operating in a far more critical market place. They are large organisations and it will take a long time to change traditional cultures. They can expect the transition to be subjected to a painful, public scrutiny.

Small Businesses and their Banks. Report £800, summary £3.50. Tel. 0565 634467.
***Tel 071 283 5454.*
†Tel 071 528 8530.

Taking the banks to task

Business owners who would once have accepted the bank manager's advice without question have become far more critical. They are now aware of the need to manage the banking relationship. Points they should watch include:

● If you are unhappy with your bank's charges check with the branch how they are calculated. Errors are common and it is not unknown for a 0 to be added to the interest rate or for penalty rates to be levied on the entire overdraft and not just the excess.

● If the manager cannot say how he has arrived at a particular level of charges press for an explanation. This should be less common now the banks have published customer charters and more details of their rates but it does sometimes occur.

● Negotiate on fees but do not forget that the bank has to make a profit too. It makes sense to compare what your bank offers with the competition and use this in negotiations.

● Ultimately it may be worth changing banks but do not underestimate the inconvenience involved. Make sure the bank you would like to move to will be prepared to take on your account. Some managers are reluctant to take on refugees from their competitors on the grounds that they may be troublemakers.

● Keep your bank manager informed about the progress of your business on a regular and timely basis. This is more than a chore. It is a useful discipline which will keep you more informed about your business. Make sure the quality of your financial information is high and not just a few jottings on the back of an envelope.

● If you have bad news to impart make sure you have a plan prepared for putting the problems right.

● Keep a close eye on the terms and renewal dates of bank facilities so you can plan your negotiating position ahead of the next renewal meeting.

● Make sure you have a facility letter from your bank to cover any financing you have arranged. Check its contents to see that it matches what you have agreed verbally.

● If you are required to provide personal guarantees make sure the amount corresponds to the sum borrowed and that there is a time limit. Do not sign unlimited, open-ended guarantees, it will restrict your freedom of manoeuvre. Once a guarantee expires make sure the fact is recorded at Companies House or at the Land Registry or you may have problems raising loans in future.

CB

In a Nutshell

Intellectual property rights explained

Intellectual property rights can be among the most valuable assets of a business but their importance is often overlooked because they are intangible. A guide to the legal issues has been prepared by solicitors Baileys Shaw & Gillett.

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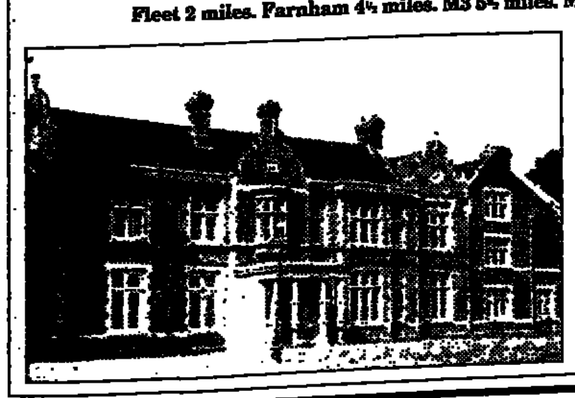

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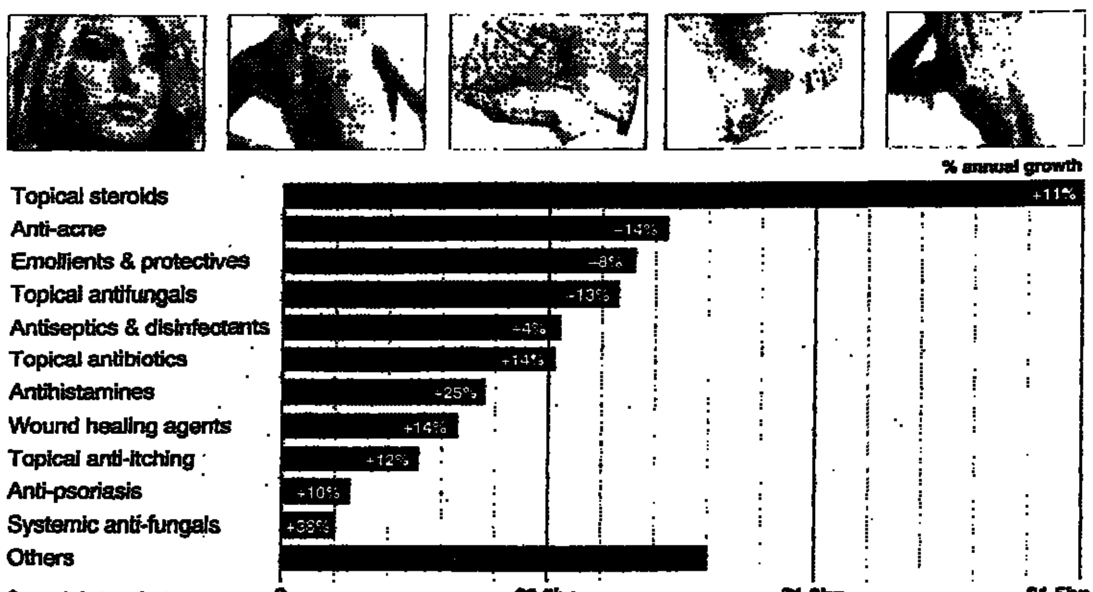
TECHNOLOGY

Continuing a series on drug discoveries, **Clive Cookson** looks at the latest developments in dermatology

Getting under the skin

World sales of skin drugs 1992



Source: Industry estimates

The skin seems superficially to be an easy target for the pharmaceutical industry. It is more accessible than any other part of the body, and drugs applied to the skin are relatively free of systemic side-effects.

Yet people suffering from skin disorders, estimated to make up 15 per cent of the population at any given time, have been poorly served by medical and pharmaceutical research. Few safe and effective treatments exist for conditions such as psoriasis, eczema, dermatitis or acne, which – although rarely life-threatening – can make a misery of patients' lives for years on end.

The outlook for the next few years is more encouraging, however. Several large pharmaceutical groups are taking a renewed interest in dermatology. And many emerging drug companies see topical applications – directly to affected areas of the skin – as the fastest route to the market, because the Food and Drug Administration is less concerned about side-effects than for drugs that have to be swallowed or injected.

Skin disorders as a whole make up a valuable prescription drug market worth about $6.5bn (£4.3bn) in 1992 and growing at more than 10 per cent a year. But the dermatology market is highly fragmented compared with other pharmaceutical fields, with no single drug selling more than $200m a year.

Among the international pharmaceutical groups, Johnson & Johnson and Schering Plough of the US, Roche of Switzerland and Schering AG of Germany are current leaders in the dermatology market. But perhaps the most ambitious is Sandoz of Switzerland. A relatively small player now, it has dermatology sales of no more than $170m a year.

Sandoz has designated the skin as a priority business for marketing, research and development. "Dermatology is going to provide the most growth of any area for Sandoz over the next five years," says David Pearson, who is responsible for international dermatology marketing at the company's Basle headquarters. If Sandoz achieves its targets, it will become the world's largest producer of skin drugs within five years.

The company's decision to focus on the skin was based partly on its expertise in immunology, because psoriasis and some forms of dermatitis are linked to dysfunction of the immune system. Sandimmun (cyclosporin A), the immune suppressant used to prevent rejection of organ transplants, is one of the few drugs capable of clearing up severe psoriasis. But it is a powerful systemic medicine with potentially dangerous side-effects. Sandoz scientists in Switzerland and Austria are now working to develop new cyclosporin derivatives that patients can apply directly to the skin.

Psoriasis, which affects about 2 per cent of the population, results from excessive growth of skin cells combined with inflammation. Like other skin disorders, it can take several forms and in severe cases its lesions can be life-threatening. Conventional psoriasis treatments, including coal tar ointments, steroid creams and ultraviolet radiation, may bring temporary relief but do not tackle the underlying causes.

Although the current market for specific psoriasis drugs is small – an estimated $130m last year – psoriasis is a favourite target of dermatological research. While cyclosporin A is a promising treatment for severe cases, dermatologists are reporting encouraging results among patients with mild to moderate psoriasis from Dovonex (calcipotriol), a new derivative of vitamin D introduced in Europe two years ago by Leo Pharmaceutical of Denmark.

Dovonex ointment is a potent inhibitor of skin cell proliferation. Clinical trials at Leicester Royal Infirmary have shown that it is "highly effective" at improving psoriasis without toxic side-effects.

Derivatives of vitamin A, known as retinoids, can help to clear up another distressing skin disorder, acne, which is caused by over-

Skin disorders make up a prescription drug market worth an estimated $6.5bn in 1992 and growing at more than 10 per cent a year

production of oil by sebaceous glands in the skin. Mild acne – the spots that appear temporarily in most teenagers – is often treated by applying lotions and creams containing benzoyl peroxide to dry the skin or antibiotics to kill the bacteria that can exacerbate the condition. But retinoids are the only effective treatment for severe acne, which can lead to deep cysts and permanent scarring. The most powerful retinoid is Roaccutane, developed by Roche. It is taken by mouth and the side-effects, including birth defects in pregnant women, are potentially so dangerous that in the UK its use is restricted to hospitals.

Smaller companies developing novel drugs for skin disorders include:

- Sphinx Pharmaceuticals of North Carolina. It has a topical psoriasis drug, Kynac, in clinical trials. It is designed to inhibit a family of enzymes, known collectively as protein kinase C, which act as molecular messengers for skin cell proliferation and inflammation.
- Agouron of California which has a psoriasis drug, AG-85, which inactivates a different enzyme, thymidylate synthase, which is involved in cell proliferation. Its first clinical test last year gave equivocal results; the patients' psoriasis improved whether they were treated with AG-85 or inactive liquid – an illustration of the way some skin disorders are affected by psychological factors and may tend to respond temporarily to any sort of attention. Agouron will carry out a second trial this year with reformulated AG-85.
- Genta of California. It is developing genetic "anti-sense" drugs designed to treat skin disease at the point of origin by blocking the genes that control proliferation and inflammation. These are not ready for clinical testing. Meanwhile, to build up sales, Genta has filed new drug applications for five conventional dermatological compounds.
- Scotia Pharmaceuticals of the UK which is working on two separate approaches: fatty acids and lithium salts. Its first prescription drugs, Epogam (based on evening primrose oil) for atopic eczema and Efalith (lithium succinate) for seborrhoeic dermatitis, are licensed to Searle for sales and marketing.

Conventional pharmaceuticals are not the only approach to dermatology. Last summer, a group of London dermatologists reported in the Lancet a clinical trial of traditional Chinese herbal remedies – long used to improve skin conditions. They found that drinking a tea made from 10 dried Chinese herbs significantly improved the symptoms of patients with atopic eczema. "An understanding of the pharmacological basis for the beneficial effect is limited," they said.

Also, light-based treatments for severe skin disease may be due for a renaissance. Ultraviolet rays have been used for decades in conjunction with photosensitising chemicals but their effect is unpredictable and many patients fear the side-effects of irradiation. Quadra Logic of Vancouver, Canada, is now beginning clinical trials of a refined technique, called photodynamic therapy: psoriasis patients are injected with a light-activated drug, BPD, and exposed not to ultraviolet but to red light from a medical laser.

The pharmaceutical outlook is promising for patients with skin disease serious enough to be referred to a hospital dermatologist. Safe drugs to provide relief from the milder forms of eczema and dermatitis – which can still drive patients into a frenzy of itching – are a more distant prospect.

John Berthe-Jones of Leicester Royal Infirmary says the greatest unmet need in dermatology is a treatment for pruritus (the medical term for itching). Anti-histamines provide only slight relief. "Itch is a symptom that completely defies us," he says. "Above all, we need a drug that would block its transmission from skin to the brain."

The series continues next month by looking at advances in vaccines.

Beauty business fights flaws

By Victoria Griffith

Beauty-conscious consumers have taken to skin moisturisers in a big way, as companies have widened their products' appeal by using an increasingly advanced range of ingredients. But as well as boosting sales, this has also led to sharper scrutiny from health regulators.

The facial moisturiser industry produced $2.3bn (£1.5bn) of sales in the US in 1992 – up by 10 per cent on the previous year, according to Diana Temple, a cosmetics analyst with Salomon Brothers in New York, while new product introductions rose by 14 per cent.

This month, Pond's by Unilever launches a new line of complex moisturising products, priced to sell at between $5 and $12, well below the high prices charged for other products in this market. Avon is introducing Anew, a low-priced moisturiser with collagen acid, while L'Oreal's Plenitude, the first mass-market product to contain sophisticated ingredients like liposomes, has been expanding its market share.

The US Food and Drug Administration is far from pleased about the direction the cosmetics companies are taking. It will soon examine the new products for possible regulation. But its attention has been temporarily distracted by the controversy over Retin-A, which some physicians claim can completely offset damage caused by overexposure to the sun. In one case, the FDA chastised several physicians for allegedly recommending the use of Retin-A, approved only for use on acne, as a wrinkle eradicator.

Ortho, the Johnson & Johnson subsidiary making Retin-A, responded by repackaging the product under a new name, Renova, and filing an application with the FDA to use the cream as an anti-ageing skin drug. But many of the moisturisers on the market use a compound related to Retin-A in their own products.

The active ingredient in both Retin-A and Renova is tretinoin, a synthetic analogue of vitamin A, developed so it can be absorbed through the skin. Many products use another vitamin A derivative called vitamin A palmitate.

The cosmetics companies insist that consumers need the innovative new products for a long-lasting moisturising effect. "Old-fashioned moisturisers simply bind water to the skin's surface," said Daniel Maes, vice-president in charge of research and development for Estée Lauder.

Still, because of concern over possible regulations, cosmetics companies are searching for alternatives to vitamin A derivatives. Estée Lauder has introduced cerebrosides into its products. "The superficial layer of the skin loses its ability to retain water with age," said Maes. "The cerebrozides are a complex lipid found in plants in China and they restore this function."

Besides the side-effects of vitamin A derivatives, the FDA is concerned about products that penetrate deeply. These products often depend on liposomes and niosomes, which coat the moisturisers' active ingredients to carry them deeper into the skin. Many companies are struggling to find moisturisers that have an impact similar to the deep-penetrating products while affecting only the skin's most superficial layers.

It will not be easy to find a substitute for the vitamin A derivatives. Lipids help restore the skin's capacity to create its own moisture, but vitamin A derivatives perform a different function. As skin ages, the cells in the skin start to experience abnormal activity, growing too fast or too slow. Vitamin A palmitate slows the activity of hyperactive cells and boosts the activity of under-active cells.

Like the proponents of Retin-A, the makers of products using vitamin A palmitate claim the moisturisers can eradicate superficial lines. "As the skin cells stabilise and retain moisture, they get thicker," said Maes. "And as the epidermis gets thicker, the superficial wrinkles disappear."

Yet because of what the industry claims are striking results, manufacturers are unlikely to relinquish the ingredient for some time. The market's growth prospects are simply too tempting.

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Perrier workforce loses merger plea

EUROPEAN LAW

Attempts by the Perrier workforce to challenge the European Commission's decision allowing the Nestlé/Perrier merger have suffered a setback following refusal by the president of the Court of First Instance, Mr Cruz Vilaca, of their application for interim measures. This was the first Court ruling involving the 1989 EC merger regulation.

Following clearance of the merger by the Commission last summer the Perrier workforce brought an application for judicial review. Pending the hearing of their application they also requested suspension of the Commission's authorisation decision and asked the CFI to order the Commission to require Nestlé not to reduce employment in the Perrier group nor to comply with the undertakings given to the Commission which included the sale of Perrier subsidiaries.

The CFI president dismissed the application for interim measures on the grounds that the applicants had not proved sufficient urgency to justify intervention by the Court.

The main reason for urgency relied on by the applicants was the threatened redundancy of 740 employees during 1993 and the likelihood of further redundancies following the sale of subsidiaries to a competitor, BSN, France's largest foods group. They claimed the absence of a right of reinstatement for unfair dismissal in French law meant that redundancy constituted serious and irreparable harm.

In reaching his decision the president took into account the need to balance the conflicting interests of the employees' representatives with those of Nestlé.

The president pointed out that, in fact, redundancies would arise only if the more favourable methods proposed by Nestlé for reducing employees failed.

Moreover, there should be no risk of further redundancies as a direct result of the Commission's authorisation decision itself or the conditions requiring the sale of subsidiaries.

First, the merger regulation expressly states it has no impact on the collective rights of employees. Second, the 1977 Acquired Rights Directive precludes redundancy on the transfer of a business, including a transfer resulting from a merger authorisation decision.

Judicial Review

However, the president rejected the Commission's claim that the main judicial review application was inadmissible.

The applicants' main grounds for asking the court to annul the Commission's decision include alleged infringements of the procedural rights of recognised employee representatives of the companies concerned by a merger and the failure of the Commission to respect fundamental social rights recognised by Community law, including the social charter.

They also challenged the decision on the grounds of failure to maintain effective competition in France, and the introduction of the concept of "duopoly" or "oligopolistic dominance" without legal basis into the merger regulation.

Although the CFI president did not comment on the main grounds for judicial review, his ruling contained observations on the policy objectives of the merger regulation indicating the likely position which the CFI could adopt in the context of the protection of employee interests in merger cases.

He accepts the Commission policy implemented during the first two years of EC merger control that competition considerations are predominant in the assessment process. But, he notes that in considering the effect of mergers on the structure of competition in the Community, the Commission must place its appraisal within the general framework of the achievement of the fundamental objectives referred to in Article 2 of the EEC Treaty, including that of strengthening the Community's economic and social cohesion.

According to the president, the Commission also acknowledges the correctness of this approach. More interestingly, the Commission is reported as saying that taking other effects of a merger into account would hinder achievement of one of the general Treaty objectives and notably the development of employment.

The Commission claims that neither the Perrier takeover nor the subsequent sales of subsidiaries could harm any of these objectives.

Case T-96/92 R, Comité Central d'Entreprise de la Société Générale des Grandes Sources et al v Commission, Order of President of Court of First Instance, 15 December 1992.

BRICK COURT CHAMBERS, BRUSSELS

Marriages made in Brussels

Robert Rice on why EC merger rules have found favour with industry

Commissioners past and present: with Karel Van Miert (left) at its head the regime is likely to become more relaxed than in the days of Sir Leon Brittan

The endowment of Brussels two years ago with power to vet large-scale Community mergers has been an unexpected success for European business. The Merger Task Force, the European Commission's mergers watchdog, has shown itself capable of meeting the tight procedural deadlines set by the merger regulation and a willingness to reach an accommodation with businesses where possible.

This flexibility is reflected in the statistics. Of the 136 notifications dealt with by the task force during its first two years, 103 were cleared within one month and only 10 went to a full-scale, four-month, phase two investigation. Of those, two were cleared, one withdrawn, and seven cleared after modification.

Only one merger – the bid by France's Aérospatiale and Italy's Alenia for Canadian aircraft manufacturer De Havilland – has been blocked following a phase two investigation, and that largely because of the fierce opposition to it put up by Sir Leon Brittan, then competition commissioner.

It took 17 years of negotiation and much political compromise to get the merger regulation adopted.

Deciding which cases should be dealt with by Brussels and which should be left to the national competition authorities proved one of the bigger sticking points. Finally, it was agreed jurisdiction should be determined by reference to the turnover of the companies involved.

If the combined worldwide turnover of the companies was more than Ecu5bn and the aggregate EC turnover of each of at least two companies was Ecu250m or more, then the case would go to Brussels. Mergers below these thresholds would remain the exclusive jurisdiction of national authorities.

This represented a victory for Germany and Britain, the two EC countries with the strongest national competition bodies and the most reluctant to cede power in this area to Brussels. Other member states argued the thresholds should have been set lower, bringing more mergers under Brussels' control.

As a compromise it was agreed thresholds would be reviewed by the end of 1993 with the expectation that they would come down if Brussels proved itself capable of handling a predicted 50 to 60 mergers a year. This year promises a fierce debate on the issue between the member states and the Commission.

Has the regulation been a success? Mr Michael Reynolds, head of City solicitors Allen & Overy's Brussels' office, says it is possible to criticise individual decisions and there has been some inconsistency, for example, in defining relevant product and geographic markets.

There has also been some concern over lack of transparency. Why for example was the De Havilland merger blocked while Nestlé's bid for Perrier was cleared subject to certain undertakings? There is no doubt, however, that deadlines have been met and the regulation has been a procedural success, he says.

So will the thresholds come down in 1993? It seems industry would like them to. If a case is borderline it is now quite common for businesses to ask their lawyers to structure the deal so as to bring it above the thresholds, Mr Reynolds says.

What industry likes about the merger regulation is the certainty it affords – the opportunity to obtain clearance for a deal after the initial one month appraisal period, he says. This certainty is not afforded by national competition authorities.

Professor Barry Hawk, head of the Brussels office of US law firm Skadden Arps Slate Meagher & Flom says industry is also heartened by the task force's relaxed approach, reflected in the statistics.

If Sir Leon had remained in charge of competition, a toughening of the regime could have been expected particularly after the De Havilland case. But with a new competition commissioner, Mr Karel van Miert, in charge and a new director of the task force, Mr Phillip Lowe, taking over in April, neither of whom has any background in competition regulation, the regime is, if anything, likely to become even more relaxed, he says.

Mr Van Miert has already stated that strict competition principles will not be the sole guidelines for EC antitrust decisions over the next two years and that he wants to model EC policy more on the Japanese approach taking into account industrial, environmental, regional and social issues. If the net result is a further relaxation of the Brussels merger regime, industry may lobby even harder for lower thresholds.

Sir Sydney Lipworth, outgoing chairman of the UK's Monopolies and Mergers Commission, counsels caution, however. What industry likes so much about the Brussels regime is the possibility of quick clearance of a merger. But EC mergers and acquisitions activity has been at a low ebb over the past two years. If M&A activity were to pick up and at the same time the thresholds came down increasing the number of mergers dealt with by Brussels, deadlines might begin to slip and the procedural certainty could be threatened, he says.

Whether the thresholds come down will ultimately be determined by the politicians. A year ago when Sir Leon was still in charge and the subsidiarity debate had yet to come to the fore a lowering of the thresholds looked on the cards. With Mr Van Miert at the helm and the political climate shifting against the ceding of more power to the centre, a reduction in the thresholds is less certain.

If the Commission is set on reducing the thresholds there will be a price to pay, Professor Hawk says. Germany and Britain, and to a lesser extent France, are likely to oppose any reduction. Germany's price for agreeing to a change would be the establishment of an EC mergers watchdog independent of the Commission or conceivably an independent EC cartel office based on its own Bundeskartellamt.

It is not clear whether the UK would support Germany in this demand. Although not purporting to speak for the UK government, Sir Sydney has made it clear on a number of occasions that while he thinks the body responsible for investigating mergers should be as independent as possible he would stop short of the single all-pervading independent competition body sought by Germany.

Member states might also be prepared to agree to the thresholds coming down in return for a number of amendments to the regulation itself, Mr Reynolds says.

A strengthening of the exception which allows mergers above the threshold to be referred back to member states on the grounds that they affect a distinct national or regional market would be welcomed by Germany and the UK. Three requests from Germany in the Varta/Bosch; Mannesman/Hoesch; and Alcatel/AEG Kabel cases were all turned down. Only one merger Steetley/Tarmac has been referred back under this exception and that was largely because a related bid by Redland was already being investigated by the UK's MMC.

Most member states would also welcome a change in the EC's policy on negotiating settlements which would allow the Commission to accept behavioural undertakings in addition to structural changes.

And if Mr Van Miert is determined to extend his policy of considering factors other than pure competition, several member states would like to see those factors written into the regulation. A significant amount of political horse-trading lies ahead.

LEGAL BRIEFS

Defending the mark of a true Champagne

Champagne producers have never been slow to to protect their appellation against those who attempt to trade on its reputation.

The latest in a long line of legal cases to be heard by the English High Court started yesterday. It concerns "Elderflower Champagne", a non-alcoholic cordial with added carbonated water, sold in green, Champagne-shaped bottles with wired mushroom corks, by Thorncroft Vineyard. At issue will be whether the consumer is likely to be misled into believing this is real Champagne.

While Thorncroft will argue that no one could possibly make that mistake, the Champagne producers believe they have ample evidence to show that people will be misled. Although its reputation is well known, few people know what Champagne really is – a unique sparkling wine produced only in the Champagne region of France, they say.

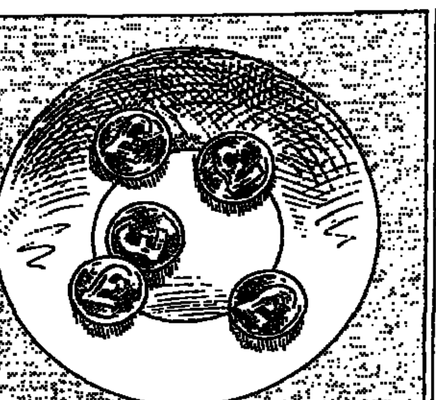
There is also a principle at stake. If Thorncroft is allowed to market its product unchallenged, others will follow and pretty soon the mark, Champagne, will have been destroyed, passing into the vernacular like other well-known marks before it, such as Gramophone, Hoover, Go-kart and Aspirin. The hearing is expected to last five days.

Control Securities

In our issue of December 22, we reported that Mr Nazmu Virani, currently being prosecuted in connection with the Bank of Credit and Commerce International investigation, was the head of Control Securities plc. Control Securities has asked us to point out that he is no longer with the company and is not being prosecuted in connection with his former role there.

FT Lunch for a Fiver.

Two for a Tenner.



On Saturday January 9 the Financial Times announced the introduction of the "FT Lunch for a Fiver" with over 130 restaurants participating nationwide.

On weekdays from Monday January 18 until Friday January 29 inclusive, you are being offered an "FT Lunch for a Fiver" menu at participating restaurants. These will be listed daily in the Financial Times and published in full next Saturday January 23. The "FT Lunch for a Fiver" menu is for two courses (although some restaurants are offering three). Drinks, coffee and service are extra.

RESTAURANTS

Sonny's, 94 Church Road, LONDON SW13	Tel: 081 748 0393	La Brasserie, 60-61 St. Mary Street, CARDIFF	Tel: 0222 372164
Sloans, 27-29 Chad Square, Hawthorne Road, Edgbaston, BIRMINGHAM	Tel: 021 455 6697	Café Rouge, 7a Petersham Road, RICHMOND, Surrey	Tel: 081 332 2423
Markwicks, 43 Corn Street, BRISTOL	Tel: 0272 262658	Café Rouge, 26 High Street, Wimbledon, LONDON	Tel: 081 944 5131
Brasserie Forty Four, 44 The Calls, LEEDS	Tel: 0532 343232	Café Flo, 149 Kew Road, RICHMOND, Surrey	Tel: 081 940 8298
Armadillo, 20-22 Mathew Street, LIVERPOOL	Tel: 051 236 4123	Café Flo, 676 Fulham Road, LONDON SW6	Tel: 071 371 9673
Normandie, Elburt Lane, Birtle, MANCHESTER	Tel: 061 764 3869	Angel, 101 Bermondsey Wall East, Rotherhithe, LONDON SE16	Tel: 071 237 3608
Adlards, 79 Upper St. Giles Street, NORWICH	Tel: 0603 633522	King's Head, Ivinghoe, LEIGHTON BUZZARD, Bedfordshire	Tel: 0296 668264
Sonny's, 3 Carlton Street, Hockley, NOTTINGHAM	Tel: 0602 473041	Wheelers, 12a Duke Street, LONDON W1	Tel: 071 930 2460
The Marsh Goose, High Street, MORETON-IN-MARSH, Gloucestershire	Tel: 0608 52111	Pierre Victoire, 10 Victoria Street, EDINBURGH	Tel: 031 225 1721
Le Marché Noir, 2-4 Eyre Place, EDINBURGH	Tel: 031 558 1608	Pierre Victoire, 8 Union Street, EDINBURGH	Tel: 031 557 8451
The Vintners Rooms, 87 Giles Street, Leith, EDINBURGH	Tel: 031 554 6767	Pierre Victoire, 38-40 Grassmarket, EDINBURGH	Tel: 031 226 2442
The Ubiquitous Chip, 12 Ashton Lane, GLASGOW	Tel: 041 334 5007	Pierre Victoire, 52 Coburg Street, EDINBURGH	Tel: 031 555 6178
La Belle Epoque, 61-63 Dublin Road, BELFAST	Tel: 0232 323244	*Tomorrow's listing will include London restaurants*	

We are also running a competition to enter a free prize draw in which you could win a weekend for two at Gidleigh Park, Chagford, Devon.

Every weekday, from 11th–29th January, the Financial Times poses an "FT Lunch for a Fiver" question. Answer any 10 of the 15 questions (Clue: The answer is the name of a restaurant given in that day's listing), complete an entry form which will be published every day between 25th–29th January, and send them to us at the address given below. Your comments on your favourite "FT Lunch for a Fiver" menu will also be welcome.

QUESTION 7: Where to advance on board?

FINANCIAL TIMES
EUROPE'S BUSINESS NEWSPAPER

ANSWER 7:____________________

Answer this question, together with 9 others published during the competition period, and send them, together with a completed entry form to "FT Lunch for a Fiver", Number One Southwark Bridge, London SE1 9HL, to arrive no later than Friday February 12 1993. The prize draw will be made on Monday February 15 1993. The sender of the first correct entry drawn after the closing date, from all the entries received, will be declared the winner. Full details of the competition and previous questions are available from the Marketing Department of the Financial Times at the address given above, or on Tel: 071 873 3670.

19/1

PEOPLE

Sir Robert Clark to chair bank boutique

At 69, Sir Robert Clark, one of Britain's best-connected merchant bankers, has finally got an investment bank with his own name on it. He has been made chairman of Rauscher Pierce & Clark, a London investment banking boutique, being established by the Dallas-based firm, Rauscher Pierce Refnes.

The new boutique plans to marry Rauscher Pierce Refnes' strengths as the leading investment bank in the US South West with the contacts of a group of European investment bankers led by Sir Robert, who rose to prominence as a merchant banker during his chairmanship of Hill Samuel from 1974 until it was taken over by the TSB Group in 1987.

A *former* director of the Bank of England and vice chairman of TSB until March 1991, Sir Robert is currently chairman of Mirror Group Newspapers, vice chairman of SmithKline Beecham, and has *a string of other directorships* including Shell Transport and Trading.

David Quint, a 42-year-old lawyer and managing director of the new firm, says he has known Sir Robert for ten years having been introduced to him by former Hoover boss Sir Peter Boon, a fellow director of Belden & Blake, a small US oil company.

Sir Robert and Quint visited three US regional firms before linking up with Rauscher Pierce which has 25 offices around the US South West. The US firm will have 25 per

cent of the equity and Sir Robert will have "almost the same".

Sir Robert said yesterday that it was nice to work "for oneself for a change" and he expected to devote about a third of his time to the new venture. The advantage for the US parent is that its new European outpost – it will also have a Zurich office – needs *little capital and will have low* overheads. "It only takes a couple of projects to make quite a difference," says Quint.

Sir Robert has recruited a couple of "old friends" to his board – Richard Butler, a former president of Paine Webber International, and James Ladner, a Zurich-based investor and former executive vice president of Coutts' Swiss bank. Rauscher Pierce will be represented on the board by David Smith, chief executive, and Robert Brown, head of corporate finance.

■ Seton Healthcare Group, the rapidly expanding medical products and sports equipment company, has appointed Roger Humphreys as group financial director from March 1. Humphreys, 31, is currently the Blackburn-based group's financial controller, having joined just over two years ago from KPMG Peat Marwick, Seton's auditors. Roger Gould, who previously held the position of financial director, continues as deputy chairman and company secretary. Seton's market value has quadrupled to more than £95m since it came to the market in 1990. The group's chairman is Norman Stoller, son of the founder, who started making tubular bandages in 1952.

■ Shandwick, the international public relations agency whose fortunes have recently improved slightly after a turbulent time on the stock market, has appointed Larry Kaplan, 39, to its board.

Kaplan, a US citizen and possessor of an MBA, has been with Shandwick since 1988 following six years with Primerica. Before that he had six years at Reed International.

His first post with Shandwick's north American operations was as controller, thereafter being promoted to chief financial officer in 1990 and regional director in 1992.

Kaplan's membership of the board is intended to strengthen internal communications in North America – where Shandwick gets more than 50 per cent of its revenues.

Bodies politic

■ Derek Prentice, assistant director of the Consumers' Association, has been appointed president of BEUC, the European Bureau of Consumer Unions.
■ *Sir Leon Brittan* has been appointed Chancellor of the UNIVERSITY OF TEESSIDE.
■ John Armitt, chairman of Laing Civil Engineering and John Laing International, has been appointed president of the EXPORT GROUP FOR THE CONSTRUCTIONAL INDUSTRIES.
■ *Nigel Hughes, director of* technology for Smiths Industries Aerospace and Defence Systems, has been appointed a member of the CAA's airworthiness requirements board.
■ Tim Sheppard, md of Siemens Measurements, has been appointed chairman of the BEAMA METERING ASSOCIATION.
■ David Harrup, md of ABS Pumps, has been appointed chairman of the BRITISH PUMP MANUFACTURERS' ASSOCIATION.
■ Adrian White, chairman of Biwater, has been appointed chairman of BRITISH WATER INDUSTRIES GROUP.
■ Ian Wright has been appointed director of training at the CONSTRUCTION INDUSTRY TRAINING BOARD on the retirement of Doug Shaw.
■ Geoffrey Marsh, who worked at the Museum of London and as museum development officer for area museum service for south eastern England, has been appointed project director for the IMPERIAL WAR MUSEUM's new development at Hartlepool.
■ David Tidmarsh, chief executive of Applied Holographics, has been appointed president of the INTERNATIONAL HOLOGRAM MANUFACTURERS ASSOCIATION.
■ Sir Denys Henderson, chairman of ICI, has been appointed chancellor of BATH UNIVERSITY.
■ Barry Supple, master of St Catharine's College, Cambridge, has been appointed director of The LEVERHULME TRUST on the retirement of Sir Rex Richards.
■ Judith Anthony (below), Hertsmere Borough Council's planning officer, has been *appointed to the newly created* post of director of operations at the INDUSTRIAL SOCIETY.

Pat Dyer (left), managing director – gases at BOC, has been appointed deputy chairman of the BOC group. He will deputise for Patrick Rich, *chairman and chief executive*, in a wide range of roles, allowing him to concentrate on strategy and planning.

The group is also reorganising its divisional structure in an effort to integrate its regional businesses more effectively and increase the spread of its technology.

Chung Kong Chow, known in the business simply as "CK", has been appointed to the new position of group operating officer and chief executive of BOC gases. He was previously director North Pacific gases.

هكذا من الأصل

A Roman evening

The Song of Tales

Some 20 years ago, almost at the outset of his career, the Neapolitan musicologist-composer-producer Roberto De Simone created a spectacle entitled *La gatta Cenerentola* (The cat Cinderella), based largely on *Lo cunto delli cunti* (The Tale of Tales) by Giambattista Basile, the 17th century collection of fairy-tales that has inspired many subsequent works, among them Prokofiev's *Love of Three Oranges*. With liberal admixtures of mime, dance and traditional music (plus some music of his own) De Simone created a piece of stage magic, subsequently revived several times, and now a part of Italian theatrical history.

The recent announcement of a new De Simone full evening of Neapolitan song and story naturally aroused keen expectation among his fans, especially since the title *Il canto de li cunti* (The Song of Tales) again recalled Basile, and suggested that *La gatta Cenerentola* would have a successor. But the wily producer both disappointed and rewarded his admirers. The earlier piece was a kaleidoscope of visual invention and brilliant colour; the new work is sober to the point of starkness – the performers are all dressed in black – and movement is reduced to the essential minimum. But within these narrow, self-imposed confines, *Il canto de li canti* proved to be as varied and thrilling as anyone could wish.

It began with Basile – a story of an Ogre and his garden – narrated, chanted and sung by seven singers, with subtle, deliberately scant accompaniment, then ranged through other traditional songs and stories to some versions of *Don Giovanni*, of which the most exhilarating saw Pulcinella standing in for Leporello, and then a hilarious bit of 18th century farce – *L'Opera di Zeza* – with enchanting pastiche music by De Simone, and with the superb Neapolitan actor Rino Marcelli, en travesti, as Zeza (before that, he had been a magnificent Pulcinella).

The second half featured more recent pieces: a staged poem by the late comedian Totò, in which two dead men – a street-sweeper (again the unparalleled Marcelli) and an aristocrat (the suitably pompous Enzo Pierro) – come to wry conclusions about life and death; some songs of Salvatore Di Giacomo, the 19th-century poet whose lyrics were seized upon by generations of composers; and finally a series of pieces by Raffaele Viviani, a somewhat underestimated turn of the century author whose bitter streak distinguishes him from other Neapolitan humourists.

The outstanding quality of this production – apart from the unerring taste and interest of the selected material – was its coherence, its apparent spontaneity along with its impeccable organisation. In a sense there were no stars (even Marcelli worked in perfect synchrony with the others); and in another sense, the interpreters were all stars: a glittering constellation that, despite the almost bare stage and the funereal dress, lit up the Teatro Valle in Rome and, from there, should go on to shine in many other theatres.

William Weaver

The gentle manipulator of space is at it again

William Packer reviews Tim Head

It is easier to describe the work that Tim Head is currently exhibiting than either to justify or to condemn it. The first thing to strike us, even before we register his latest group of 15 canvases that occupies the huge lower gallery of the Whitechapel, is the space itself. We enter a room transformed, its walls now a light and uniform sky-blue, its floor covered with green plastic turf. Head, the gentle manipulator of space, the teasing confounder of familiarity and expectation, is at it again.

We need not go so far as his apologist, Marco Livingstone, who, in the catalogue essay, compares the experience with that of being placed "in the perfect stillness of an eternal heaven by Fra Angelico", to take the point. There is no deception: the means are obvious. Yet this great space, even as we enter and recognise it, is not quite the Whitechapel we thought we knew. It is bigger somehow, higher, more open and airy; yet, at the same time, oddly more complete and enclosed.

Here hang these large canvases, 13 to the set and two more *hors serie*, with their immaculate surfaces and their self-consciously bland and enigmatic images. They are clearly untouched by hand, but the manner of their making is not readily apparent. Only the catalogue can tell us that they have been printed out on an ink-jet press, regulated by computer, the images amplified from collage studies. It is at once frustrating and revealing that Head never shows such preparatory material.

What are we to make of these blank, screen-like images, so gently curved and subtly speckled? Again, only the catalogue will tell us that they derive from "the kinds of shapes used in packaging and presentation... Intrigued that such shapes look comfortingly familiar but also odd in their synthetic character, he built up a collection of them in the form of manufactured objects, labels and printed matter, sometimes drawing the outline directly from such things as plastic containers, at other times photocopying them and redrawing them. Gradually refining the selection so as to eliminate the most immediately recognisable forms, he arrived at a group of hybrid generic motifs whose particular origins can no longer be identified."

Upstairs, past the slide documentary of past work, and the "Happy Eaters" in the Gallery's cafe, we come to another total appropriation of the particular space. The small New Gallery has been blacked out and ultra-violet lamps installed to pick out the myriad coloured stick-on labels scattered across the walls and ceiling. The trick is simple enough and the effect engaging, as it were the darkest of nights and the stars bright in the firmament, "the floor of heaven thick inlaid with patinas of bright.." – well, yellow and green and blue and red.

The Upper Gallery holds a selection of Head's work of the 1980s, and it is here that his preoccupation with the synthetic product and detritus of the modern, processed, computer-driven world is made clear. Here are the large cibachrome photographs, produced to the highest gloss of contemporary advertising, that take still-life as their ironical, impassive subject. Here is a heap of plastic toys, pastel-coloured skulls that are really rubbers, rockets, toy cars: and here a King Kong cityscape of transistor radios, computers, product packaging, vibrators as skyscrapers.

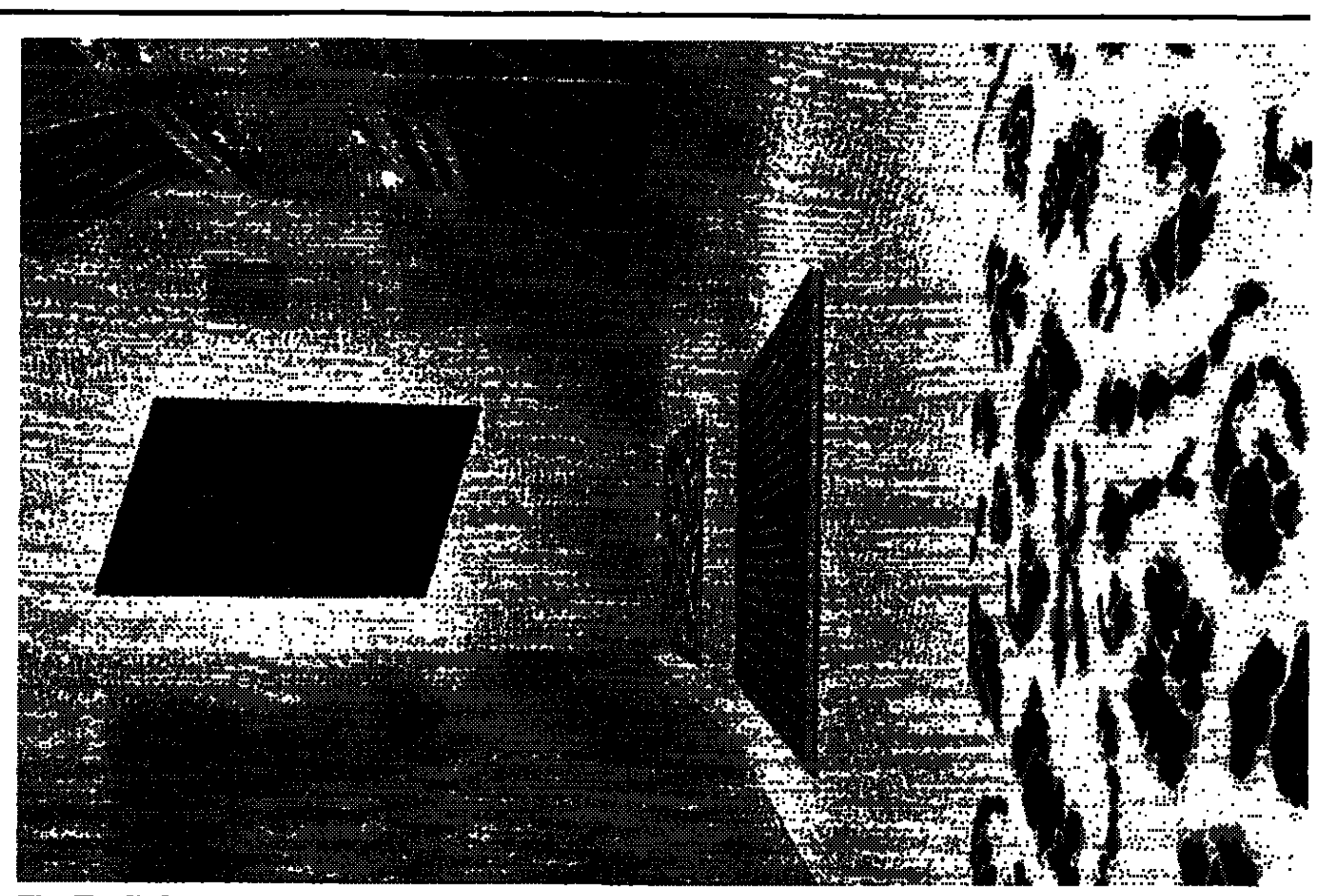
Here too are the effluent and toxic landscapes, the cibachromes of what might be pools or swamps filled with whatever we choose to throw away, plastic bottle, strip and filler, unbiodegradable to the last button. The charge is inevitable, but Head insists he is not an *issues* artist. "It's not straight-forward, and that's what makes it interesting. I *am* drawn to these things. Close up, they have a strange physical beauty that I find compelling ... We can't pretend that this stuff doesn't exist."

Further along hangs the "Cow Mutation" painting, with which he won the John Moores Prize of 1986. It is again a large canvas, but this time painted directly and simply in black and white, the image derived from the cow motif by the anonymous designer of the particular milk carton. And by degrees the poor cow disintegrates in formal frenzy before our eyes. No issue there. The series continues with such works as *Prime Cuts*, *Deep Freeze* and *Replicator*, each apparently prettier and more disarming than the next in its sophisticated simplicity, whites and pinks, violets and blues, so redolent of late Matisse. It is only the imagery itself that gives us pause, images of cells and organisms, mutant as may be, beneath the microscope. The large green and black triptych at the end carries as its image a map of the world, its continents and oceans breaking down in a desperate confusion. As I say, no issue there.

Head, it seems to me, is very much an artist of his time and place, fortunate in the sympathetic interest his work has elicited over the years, by its very nature, in the eyes of those who command the public patronage of the British art world. That of itself is no disqualification, and Head no less an artist, of considerable refinement and intelligence moreover, for the support he has enjoyed.

My feeling is only that he is as yet not fully the artist he is capable of being simply because he has yet to trust himself fully to experience and intuition, rather than, as hitherto, to idea and process. He is the victim still of his background, Newcastle in the 1960s, under the influence of Richard Hamilton, and the heresy that persists so destructively to this day, that art, to be art, must be about ideas – as though ideas alone could make a Titian, a Rembrandt or a Matisse. Idea and attitude are but the straitjacket of the aesthete and the curatorial pedant, and Head, I should have thought, too clever not to escape.

Tim Head: Whitechapel Art Gallery, Whitechapel High Street E1, until February 28, then to Manchester City Art Galleries. Sponsored by Beck's



Tim Head's latest group of huge canvases is transforming the Whitechapel Gallery

Theatre in New York

My Favorite Year

Remember 1954? I don't. I was not yet born during the heyday of live television comedy and matinee idols, the era in which *My Favorite Year*, the first Broadway musical of the New York season, is set.

But I can certainly remember the 1980s and early '90s, as musicals like *Phantom of the Opera*, *Starlight Express*, and *Miss Saigon* have upped the genre's technological ante at the expense of originality and humanity. These memories have a lot to do with why I found *My Favorite Year*, which recently played at the Vivian Beaumont Theatre in a Lincoln Center Theatre production, so wonderfully refreshing.

This new musical, based on the 1982 film of the same name starring Peter O'Toole, is far from perfect, but what it has in large supply, which so many of today's musicals lack, is charm. It is a good, self-contained, self-controlled little musical, and unlike last season's nostalgia vehicles – the Gershwin mishmash *Crazy for You* and Jerry Zaks' over the top revival of *Guys and Dolls* – it does not give the sense of material worked over and tarted up with making millions in mind.

The creative team – lyricist Lynn Ahrens, composer Stephen Flaherty and writer Joseph Dougherty – has filled out the movie's strong story line with a tight, clever book and tuneful songs that spring naturally from the action and dialogue. It is the tale of junior comedy writer Benjy Stone (Evan Pappas), who is assigned to keep his now-faded and drunken childhood movie idol Alan Swann (Tim Curry) off the sauce for the week Swann is the guest star of "King Kaiser's Comedy Cavalcade".

Given that set up, everything that you think will happen happens, with a decidedly 1990's personal-growth twist. Swann charms everyone, falls off the wagon and clambers on again just in time to save the day and make up with his long-neglected teenage daughter. Handling Swann mixes up Benjy's life just enough so that he can really shine in straightening it out: he gets the girl; recognition for his yeoman writing duties; and in bonding with Swann works through some lingering bad feelings about his own father, who deserted his family when Benjy was young. It is all pretty predictable, but Ron Lagomarsino's production clips along with such verve and it is all played with such freshness that the lack of originality does not seem to matter.

Evan Pappas as Benjy: as simple and perky as his bow tie

Pappas' Benjy embodies what makes *My Favorite Year* charming: he is as simple and perky as his bow tie, with a soaring singing voice and some of the production's best numbers on which to show it off. Curry's Alan Swann is less successful; he is too obviously playing at star quality, the essence of which is effortlessness. A shame, because when he lets down his guard, as in his climactic confrontation with Benjy in "The Lights Come Up," his natural magnetism is estimable: he can swashbuckle through my musicals in his Musketeer getup anytime.

Andrea Martin, as the doubletalking second-banana comedy writer Alice Miller, gets the show's best laughs and its cleverest musical number: "Professional Show-business Comedy." Her performance is almost too excellent, though, because it points out what keeps *My Favorite Year* merely good instead of sublime. If only the whole production had her dead-on, period-specific zing!

My Favorite Year saves the title tune, its most memorable, for last and is this good, old fashioned musical's final nod to the classic rules of showbusiness: it leaves 'em humming.

Karen Fricker

Concerts/**Richard Fairman**

A weekend with Janáček

In 1926 Janáček came to London for the most important overseas visit he undertook to promote his music. Unfortunately, his timing was not propitious: a couple of days before the main concert the country was plunged into a general strike, leaving no programmes, no transport and no newspapers to advertise the event or carry reports of it. He returned to Czechoslovakia disappointed and dejected.

The irony of this failed attempt to find a wider international audience is that since the 1950s it has been in this country, as much as any, that Janáček's music has come to prominence and popularity. The idea of a weekend devoted to a survey of his music, supported by films and talks, is one that no serious music-lover today would begin to question.

Over the past few years these BBC single-composer weekends at the Barbican have become a regular feature of London's musical life. But what started out as an ambitious project to put before the public in-depth profiles of difficult 20th-century composers is now edging on to safer ground. Last year's choice was Berg, for the first time not a living composer; and now we have in Janáček one who has a large corpus of his works – the operas – already accepted by the public at large.

As a result, the emphasis has changed. The importance of this weekend shifted to the smaller pieces, although the larger orchestral scores – *Taras Bulba* and the Sinfonietta – were included to provide a rousing climax to each evening, as they most certainly did in these muscular and dynamic performances by a BBC Symphony Orchestra in very fine fettle under Andrew Davis.

So central is the place occupied by the operas in Janáček's output that at least one had to be included. This was *From the House of the Dead*, arguably the most suited to concert performance. Again Davis goaded the music forwards with an awesome grip on its vital energy, giving the lie to the theory that the opera does not have much narrative drive, but it was not in the end an especially moving performance. A well-chosen cast, headed by Jan Blinkhof as a Filka Morozov of raw power, Kim Begley a clarion Skuratov and Russell Smythe an impassioned Shishkov, seemed locked in the opera's claustrophobic ambience of prison violence. There was less of the tenderness that gives the opera its humanity.

The very programme Janáček intended for 1926 was generously applauded

The "spark of God" which Janáček saw in each of these characters encapsulates one of the personal beliefs that is expressed throughout his music. With their out-of-the-ordinary plots, focusing upon the human condition, the operas are able to develop those feelings in a way denied his other music. Of the rare works performed during this weekend, the "Danube" Symphony, receiving its first UK performance, roamed across folk territory and down modernist paths with no very convincing sense of direction. The Violin Concerto, recently "realised" from the composer's sketches, remains a wildly inventive, but unsatisfying torso.

From other areas of his output there was a selection of the piano music, all fascinatingly individual, played by Radoslav Kvapil. The BBC Singers under Simon Joly ventured into the (mostly) unaccompanied choral music, including a drawn-out, but surprisingly sensual setting of the Lord's Prayer. There is a lot of folk arrangements that might have been added, but at nearly an hour in length this sample was enough.

Altogether, the most entertaining single programme of the weekend was the Sunday afternoon chamber music recital. From a searing account of the First String Quartet by the Lindsay Quartet, it continued via a brilliantly sparkling *Mladi* from London Winds to the Concertino, which picks up on the animal life so beloved by Janáček. This was, in fact, the very programme as he intended it for the Wigmore Hall on his visit in 1926 – now generously applauded, a happy case of musical dues at last being paid.

INTERNATIONAL ARTS GUIDE

AMSTERDAM

Beurs van Berlage Tonight at 20.15, John Adams conducts Schoenberg Ensemble in world premiere of his new chamber symphony. Sun afternoon: American programme with Netherlands Chamber Chorus (6270 466)

Concertgebouw Tonight's performance is a song recital by Robert Holl. Tomorrow, Thurs, Fri and Sun afternoon: Alain Lombard conducts Royal Concertgebouw Orchestra in works by Fauré, Roussel and Tchaikovsky. Sat: Ton Koopman directs Bach's Brandenburg Concertos. Sun afternoon: Shostakovich programme with Minsk Philharmonic Orchestra. Mon: Beaux Arts Trio (6718 345)

Muziektheater Harrison Birtwistle's Punch and Judy, staged by Pierre Audi and conducted by Oliver Knussen, can be seen tomorrow, Sun, next Tues and Fri. Richard Jones' new production of Der fliegende Holländer opens next Mon, with a cast headed by Wolfgang Schoene and Kathryn Harries (in repertory till Feb 21). Next Wed: first of four performances by Nederlands Dans Theater (6255 455)

BRUSSELS

Palais des Beaux Arts 20.00 Jane Glover conducts Belgian National Orchestra in works by Haydn, Mozart and Spohr. Next Tues: Ton Koopman directs Bach's Brandenburg Concertos. Jan 29: Alfred Brendel (507 8200)

Monnaie 20.00 Guido Johannes Rumstadt conducts a revival of Peter Mussbach's production of From the House of the Dead (repeated tomorrow, Fri, Sun, next Tues, Wed and Fri). Sat: Jeanne Piland song recital (219 6341)

Espace Temps Tomorrow, Thurs, Fri, Sat: Anne Teresa De Keersmaeker's experimental dance group Rosas in a programme entitled Erts, music by Beethoven, Webern and Shnitke (264 avenue Van Volxem, tel 219 6341)

CHICAGO

CHICAGO SYMPHONY

Daniel Barenboim conducts Tristan und Isolde Act 2 tonight at Orchestra Hall, with Siegfried Jerusalem and Waltraud Meier. Thurs, Fri, Sat and Sun: Barenboim conducts works by Rimsky-Korsakov, Sibelius and Tchaikovsky, with violin soloist Maxim Vengerov (435 6666)

CHICAGO LYRIC OPERA

On Sat at Civic Opera House, Zubin Mehta conducts the first night of August Everding's production of Das Rheingold, with James Morris, Ekkehard Wlaschiha, Bryn Terfel and Tatiana Troyanos (further performances on Jan 26, 29, Feb 1, 3, 6, 9, 12). Fri: last performance this season of La boheme (332 2244)

PARIS

DANCE/OPERA

Palais Garnier Paul Taylor Dance Company, daily till Sun. Jan 29: revival of Nureyev production of La Bayadère (4742 5371). Jan 26-Feb 6 at Théâtre de la Ville: Anne Teresa de Keersmaeker (4274 2277)

Opéra Comique William Christie conducts Alfredo Arias' Aix production of Les Indes Galantes, daily till Jan 29 except Thurs, Mon and next Thurs (4286 8883)

Théâtre des Champs-Elysées Tonight: opening of two-week season by St Petersburg National Opera with a staged performance of Tchaikovsky's Iolanta (also Jan 30, 31). Sat, Sun, next Fri: Prince Igor. Next Tues, Wed, Thurs: The Golden Cockerel (4720 3637)

Opéra Bastille Tonight, Fri and next Mon: Elektra with Gwyneth Jones (tonight) and Janis Martin (Fri and Mon). Tomorrow and Sat: Un ballo in maschera with Dennis O'Neill, Alain Fondary and Gabriela Benackova (in repertory till Feb 20). Jan 30: revival of Les Contes d'Hoffmann (4001 1616)

CONCERTS

Châtelet Tonight: Guarneri Quartet and Elisabeth Leonskaja play chamber music by Dvořák and Shostakovich. Next Mon: John Poole conducts Groupe Vocal de France in world premiere of Takemitsu's Wind Horse (4028 2840)

Salle Pleyel Tomorrow, Fri and Sat: Semyon Bychkov conducts Orchestre de Paris and Chorus in works by Smetana, Beethoven and Janáček (4563 0796). Sun afternoon at Le Rond-Point, Théâtre Renaud-Barrault: Urs Schneider conducts Orchestre National d'Ile de France in works by Mozart and Tchaikovsky, with piano soloist Frank Braley (4296 1227)

Théâtre des Champs-Elysées Thurs: Charles Dutoit conducts Orchestre National de France in works by Dvořák and Prokofiev, with cello soloist Yo Yo Ma (4720 3637)

JAZZ

Carmen Bradford, jazz vocalist and long-time associate of the Count Basie Orchestra, is at Jazz Club Lionel Hampton daily till Sat. Jan 25-Feb 6: Strunz and Farah. Music from 22.30 (Hôtel Meridien Paris Etoile, 81 Boulevard Gouvion St Cyr, tel 4068 3042)

THEATRE

● Desire under the Elms: Eugene O'Neill's 1924 play directed by Matthias Langhoff. Opens Jan 28, runs till Feb 28 (Théâtre des Amandiers, 7 ave Pablo Picasso, Nanterre, 4614 7000)

● Ubu: Alfred Jarry's irreverent black comedy which has become a classic of French theatre since its uproarious Paris premiere in 1896. Daily except Mon till Feb 7 (Dix-Huit Théâtre, 16 rue Georgette Agutte, 18e, 4226 4747)

● Marie Tudor: a transfer from Lille of Daniel Mesguich's much-admired production of Victor Hugo. Daily except Mon (Maison des arts, place Salvador Allende, Creteil, 4980 1888)

WASHINGTON

KENNEDY CENTER

Bill T Jones dance company can be seen tonight in the Terrace Theatre. Washington Opera presents La Cenerentola tonight, Thurs, Sat and Mon at Eisenhower Theater, plus Bizet's Pearl Fishers on Fri. Mstislav Rostropovich conducts National Symphony Orchestra in works by Makris, Sarasate, Szymanowski and Strauss on Thurs, Fri and Sat in the Concert Hall (202-467 4600). Sun afternoon: Mikhail Pletnev conducts Russian National Orchestra in works by Tchaikovsky, Prokofiev and Scriabin (202-833 9800)

WARNER THEATER

Twyla Tharp and Mikhail Baryshnikov appear together at a Washington Performing Arts Society event next Mon, Tues and Wed (202-833 9800)

BALTIMORE SYMPHONY ORCHESTRA

David Zinman conducts works by Copland and Beethoven on Thurs, Fri and Sat at Joseph Meyerhoff Symphony Hall, with violin soloist Cho-Liang Lin. Jan 28, 29, 30: Henry Mancini (410-783 8000)

THEATRE

● The Alchemist: Ben Jonson's 17th century play of greed and deception. Opens tomorrow, till Feb 21 (Washington Stage Guild 202-529 2084)

● Free Will and Wanton Lust: Nicky Silver is author and director of this comic drama of disfunctional family relationships. Till Feb 14 (Woolly Mammoth 202-393 3939)

● Rosencrantz and Guilderstein are Dead: Tom Stoppard's popular play. Till Feb 14 (Studio Theater 202-332 3300)

● It's the Truth, if you think it is: Pirandello's mystery thriller directed by Liviu Ciulei. Till Feb 21 (Arena Stage 202-488 3300)

ZURICH

OPERA

William Shimell sings the title role in Don Giovanni tomorrow at the Opernhaus. Thurs and Sat: Nikolaus Harnoncourt conducts Cosi fan tutte, with Lucia Popp. Fri and next Tues: Madama Butterfly with Yoko Watanabe. Sun: ballet premiere with works by Arthur Saint-Léon, Nijinski, Bernd Bienert and Jorma Uotinen (262 0909)

CONCERTS

Tonight, Thurs and Fri in the Tonhalle, Claus Peter Flor conducts Tonhalle Orchestra in works by Schumann and Brahms, with piano soloist Rudolf Buchbinder (206 3434). Tomorrow (repeated on Thurs in Lausanne and Fri in Geneva): Esa-Pekka Salonen conducts Swedish Radio Symphony Orchestra in works by Lutoslawski, Mozart and Bartók. (261 1600)

European Cable and Satellite Business TV

(all times CET)

MONDAY TO FRIDAY

CNN
2000-2030, 2300-2330 World Business Today – a joint FT/CNN production with Grant Perry and Colin Chapman

Super Channel
0700-0710, 1230-1240, 2230-2240 FT Business Daily
0710-0730, 1240-1300 (Mon, Thurs) FT Business Weekly – global business report with James Bellini
0710-0730, 1240-1300 (Wed) FT Media Europe
0710-0730, 1240-1300 (Fri) FT Eastern Europe Report
2240-2248 FT Report

Sky News
2030-2100, 2230-2300 FT Business Weekly

SATURDAY

CNN
0900-0930, 1900-1930 World Business This Week – a joint FT/CNN production

Super Channel
0830-0900 FT Business Weekly

Sky News
1130-1200, 1730-1800 FT Media Europe

SUNDAY

CNN
1030-1100, 1800-1830 World Business This Week

Super Channel
1900-1930 FT Business Weekly

Sky News
0130-0200, 0530-0600 FT Media Europe
1330-1400, 2030-2100 FT Business Weekly

Flexibility wins friends

Pressure is growing for a compromise on Hong Kong, writes Simon Holberton

Hong Kong is daring to hope. Conciliatory comments by both Chinese officials and Governor Chris Patten have raised expectations that a compromise over the colony's political development might be achievable.

The stock market – the most visible indicator of the colony's mood – in the first weeks of the year has recouped much of the losses it sustained in December, when China suggested it might not honour business contracts in the colony that span the transfer of sovereignty in 1997.

Mr Allen Lee, leader of Hong Kong's main conservative political grouping, who this morning will meet Mr John Major, Britain's prime minister, says that the atmosphere in the colony has improved markedly since the beginning of the year. In today's talks, he will press Mr Major to amend Britain's proposals for increased democracy in the colony to make them more acceptable to China.

A more flexible stance by Mr Patten is one of the reasons for the colony's increased optimism. While maintaining his "principles" – that arrangements for the colony's 1994-95 elections have to be fair, open and acceptable to Hong Kong – he has indicated a greater willingness to consider alternatives to his plans. Last week he even reminded the members of the Legislative Council (LegCo), the colony's lawmaking body, that political reforms in the colony must be acceptable to China.

Beijing, for its part, has restrained its personal attacks on Mr Patten. It has also adopted a softer tone on political matters. Mr Lu Ping, Beijing's most senior official involved in Hong Kong affairs, has played down reports that China would set up a shadow government in Hong Kong if Mr Patten persisted with his proposals.

But there are also fears that what looks like accommodation on both sides is simply a change in tactics, designed to make their respective positions more appealing to an increasingly divided population in Hong Kong.

"What I am afraid of is the continuation of a stalemate – a situation where Mr Patten introduces his package, pushes it through LegCo, and China decides to go its own way," says Mr Lee. "We cannot afford to live with four years of China not co-operating with the UK."

This view, widely held in the colony, is most strongly felt in the business community. Mr William Fung, managing director of Li & Fung, a trading company, says: "When the Basic Law [the mini-constitution, published in 1990 by Beijing, for Hong Kong after it reverts to Chinese sovereignty] came out, people thought it was a broadly acceptable basis for Hong Kong's future. Why, then, has the governor decided to upset the apple cart?"

Mr Chan Wing Kee, managing director of the Yangtzekiang Garment Manufacturing Company and chairman of the Hong Kong Exporters Association, suggests the direction of Mr Patten's reforms is misplaced.

"The 1995 elections are not the most important thing facing us," he says. "What is important is the first chief executive [CEO] of the Special Administrative Region and how he will work for Hong Kong and China. We still live in a place where who is in charge is more important than the system. If you push China into a corner, the CEO may not be the best one for Hong Kong."

But the "system" is where the fate of Mr Patten's proposals will be decided. LegCo will receive the governor's legislation towards the end of next month, and it will then initiate the process of legislative review by which it is ratified. The process promises to be protracted.

Governor Chris Patten: his plans could be amended

"The legislation will be scrutinised clause by clause and many amendments will be made; it will be messy and time consuming," says Mr Simon Ip, the legal profession's representative in LegCo.

Mr Ip is one the increasingly influential group of independent LegCo members who do not belong either to the main conservative group, headed by Mr Allen Lee, or to the democrats, headed by Mr Martin Lee, who support Mr Patten's proposals.

The independents hope that LegCo can produce legislation that manages both to preserve Mr Patten's democratic intent – a broadening of the franchise – and to go some way towards answering China's concerns. But achieving both will be difficult.

China has said that its objections to Mr Patten's proposals are less to do with democracy than with honouring past Sino-British agreements

China has always regarded Hong Kong's political development as an issue to be settled between itself and Britain. Beijing has been dismissive of LegCo, referring to it as only a consultative body.

Moreover, in the current row China has said that its objections to Mr Patten's proposals are less to do with democracy than with honouring past Sino-British agreements. It charges Mr Patten with repudiating a 1990 understanding between the UK and China concerning the 1995 LegCo polls.

Mr Patten's proposals, it says, violate the "spirit" of past agreements in two ways. According to one proposal, the "election committee", which will appoint 10 of the 60 LegCo members in 1995, would consist of 250 popularly elected local officials. In 1990 Britain gave provisional endorsement to a body that would have a narrower franchise.

His plans for nine new "functional" constituencies have also angered China. The 21 functional representatives in the current LegCo are drawn from and elected by specific professional and business groups, such as doctors and lawyers. Mr Patten's nine additional seats would be filled from a broader constituency, encompassing all workers.

Many LegCo members hope that, if they can amend Mr Patten's political reforms along the lines of the 1990 "agreements", China may acquiesce. In particular, support is gathering among independents to preserve the existing system of functional constituencies and to devise an election committee that is more consistent with the Basic Law. "We are all looking for a way out," says Mr Vincent Cheng, Hongkong Bank's chief economist and an appointed legislator.

There is also growing support for an amendment, first suggested by Mr Jimmy McGregor, an independent democrat, to limit electors to voting for one member of LegCo. "If we can implement one man, one vote, then how the new functional constituencies are drawn up is a secondary issue," says Mr Cheng.

He points out that, under the current system and the one proposed by Mr Patten, a single elector, who has a recognised profession and is a company owner, could have three votes: one for his professional affiliation, one through his membership of the chamber of commerce, and one for a geographical constituency.

Such an amendment, which would end Mr Patten's plans for nine democratically elected functional seats, could please Beijing. But whether the amendments that emerge from LegCo's negotiations can provide the basis for a compromise between Mr Patten and China will be clear only after the talking stops.

For now, and not before time, local politicians will be given a greater say in the process of transition to Chinese rule and the political system which will follow. Beijing may find it harder to reject their judgments than those of the final British governor.

Joe Rogaly

The reluctant policeman

The idea that President-elect Bill Clinton will escape from the clutches of foreign policy is piffle. He hopes to devote nearly all his time to US domestic affairs. He can forget that. When he delivers his inaugural address tomorrow, the smoke will be rising from bombed-out ruins in Baghdad. Americans will be twisting arms in Somalia. Bullets fired in Sarajevo will whistle around the new president's ears. More to the point, the remnants of the Soviet empire will still be in danger of further collapse into a series of local wars. Any of the eastern states, including Russia, might fall victim to a right-wing coup. Their nuclear arsenals are still intact. The US cannot ignore such threats to its security.

Mr Clinton should know. He is a "wonk", a swot, a voracious reader. He has studied the history of his predecessors. Every inaugural speech since the conclusion of the 1939-45 war has included a promise that Uncle Sam will continue to act as the world's policeman, or at least as a global peacemaker. On January 20 1949, President Truman spoke of opposition to a regime that adhered to a "false philosophy". It lasted for 40 years. Mr Truman announced the establishment of a new defence pact, which, three months later, became Nato. In January 1953 General Eisenhower was equally clear. "To meet the challenge of our time," he said, "destiny has laid upon our country the responsibility of the free world's leadership."

No one will forget President Kennedy's "pay any price, bear any burden" speech of 1961. Four years later President Johnson vowed that "in concert with other nations, we shall help men defend their freedom". It took President Nixon nearly two terms to extricate the US from the Vietnam war, a direct consequence of the Kennedy-Johnson dicta. In spite of that experience, President Carter devoted part of his dovish address of January 1977 to a message "to you, citizens of the world". It included an undertaking that "the United States will meet its obligation to help create a stable, just and peaceful world order".

Mr Carter was unlucky. Iran held US citizens hostage until the day after he stepped down. In 1981 President Reagan's first speech was focused on the domestic economy, as Governor Clinton's is expected to be tomorrow. Yet Mr Reagan warned: "We will maintain sufficient strength to prevail if need be, knowing that if we do so we have the best chance of not having to use that strength." He has since boasted that that sentiment won him the cold war. He could be right.

In Mr Clinton's address, we need to see evidence that he has begun to define a new national security policy 'to build on the victory of freedom in the cold war'

His successor was not so fortunate. After his inauguration on January 20 1989, when he predicted that "the day of the dictator is over", President Bush was caught napping by the falls of both Mr Gorbachev and the Communist party of the Soviet Union. He tried to construct a post-cold war policy, around the notion of a "new world order". Actions were to be legitimised by the United Nations and supported by American power. He did well in assembling the coalition that won the first Gulf war. He does not, however, leave office with a new order in place. In Iraq, the day of the dictator is demonstrably not over.

Mr Bush's problem – our problem – is that no convincing mechanism for a global foreign policy or its regional constituent parts exists. Mr Clinton has acknowledged this. "We cannot go four more years without a plan to lead the world," he says in Putting People First, the book of his campaign. In a sentence that could easily fit into tomorrow's address he adds: "The defence of freedom and the promotion of democracy around the world not only reflect our deepest values; they serve our national interest." He does not actually *have* a plan, but proposes to appoint a team to construct one. Yet we have been invited to believe that the anti-Vietnam war generation, of which Mr Clinton is the most celebrated product, may dissociate the world's most powerful republic from its previous international concerns.

The issue is not isolationism. That narrow sentiment is stronger now that the Soviet threat has disappeared. It will thrive while so many domestic problems are pressing. It flourishes in recession. But it cannot prevail. The world will not allow it to do so. What Mr Clinton needs is a structure that can guide the conduct of US relations with other states. Foreign ministries knew where they stood when there were two superpowers and a third world. Nobody knows quite what to think now that those neat divisions have faded.

What we outsiders will look for in tomorrow's inaugural address is more than a mere ritual affirmation of America's acceptance of its global reach. We need to see evidence that Mr Clinton meant what he said when he wrote last year: "We must define a new national security policy to build on the victory of freedom in the cold war." If he cannot find a single theme, a grouping of policies for specific areas will do.

For example, the bombing has not yet destroyed Mr Saddam. It can only defeat or contain Iraq as part of a regional strategy that has been clearly thought through. There are many questions for the policy wonk. Does Washington see a long-term threat in a resurgent Iran? Is there to be a pause in the Middle East peace negotiations, now that a president beholden to the Israeli lobby has been elected? Is Syria to be trusted? Again, incremental yet ineffectual measures in former Yugoslavia have not yet brought peace. The Vance-Owen plan is ingenious, but lasting stability can only be guaranteed when we have a European-American alliance that is willing and able to defend the principle that borders are not to be changed by force. As to Russia, the maintenance of a democratic, pro-market government in office is of at least as much importance to the US as any single domestic programme.

Yet Washington can no longer be relied on to support global policies on its own. It demands participating allies. This is reasonable. I offer these phrases to the Clinton inaugural address: "We shall pay part of any price, share any burden, meet a fair percentage of any hardship ... in order to assure the survival and success of liberty." The new president will have to pin something like that on his wall. There is no serious alternative.

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL
Fax 071 873 5938. Letters transmitted should be clearly typed and not hand written. Please set fax for finest resolution

Pay plight of young people

From Mr Sam Johnston.

Sir, Your article on the pay falls experienced by under 21-year-olds, when compared with older workers ("Under 21s slip behind in pay", January 14) highlights a big issue – and the fact that there has been "no evidence of systematic falls" since young people were removed from wages council protection should not be used to detract from its significance.

Young people are in an increasingly precarious position. In addition to low pay we have seen in recent years the removal of income support from 16-17-year-olds, introduction of student loans, decline of the Youth Service, continual changes in education and more generally rising homelessness and unemployment.

Young people are the future of the country and we ignore their plight at our peril.

Sam Johnston,
acting national secretary,
National Council of YMCAs,
640 Forest Road,
London E17 3DZ

Regulatory review must not tie independent financial advisers

From Mr G H E Hill.

Sir, You are right, in your leading article, to call for the alternatives to the Personal Investment Authority to be spelt out ("City regulation", January 14). The members of the existing self-regulatory organisations (SROs) will decide whether the PIA comes into existence. They need to know the implications of their decisions before they vote and they should be aware of planned changes within which SROs will operate.

However, your suggestions that Fimbra, the regulator for financial intermediaries, could be absorbed within a strengthened Lautro, the regulator for unit trust and life companies, and that independent financial advisers would have to become tied agents, except where they could obtain authorisation through professional bodies, is misguided. While examples of poor advice being given have come to light (incidentally, largely from tied agents), these have affected a small minority of the recipients of advice.

A far more pernicious consequence of the Financial Services Act has been the contraction in the availability of independent advice. However tough the regulatory environment, "tied advice" will not be a universally adequate substitute for independent advice. It is, therefore, important that the current review of SROs does not force independent financial advisers into the tied agency sector.

G H E Hill,
managing director,
National Mutual Life Assurance,
The Priory,
Hitchin,
Herts SG5 2DW

Efficiency greater in the parts than the whole

From Prof Leon Hollerman.

Sir, In his column (Economic Viewpoint, January 14) Samuel Brittan states "The US still produces much more per head than its main competitors, including Japan ..."

This is true only if you compare the Japanese economy as a whole with the US economy as a whole. Sector by sector, you get quite different results. Compare, for example, the efficiency of Japanese agriculture with that of the US. In manufacturing, however, which is what Samuel Brittan was writing about, Japan's efficiency is greater than that of the US.

Leon Hollerman,
professor of economics,
Peter F Drucker Graduate Management Center,
Claremont Graduate School,
4252 Via Padova,
Claremont,
California 91711, US

Abolition of ACT would be to throw out baby with bathwater

From J C Barnsley.

Sir, Your articles ("Government urged to look at ACT issue" and UK company news, January 12) on the problems that advance corporation tax is causing for many UK-based companies made some telling points, but might have given a somewhat misleading impression of the ACT system. It does have good points:

● When a company accounts for ACT, on paying a dividend, it also gives its shareholders an equal tax credit to set against their own personal UK tax liabilities. The ACT that can be set against the company's corporation tax bill is not a long-term cost to the company. Only ACT that cannot be used in this way (surplus ACT) is a real cost to the company, and even then the creation of that surplus ACT will have provided an equivalent economic benefit for its shareholders.

● The tendency of the ACT system to encourage profitable investment in the UK rather than overseas might be seen as helpful with the UK in recession and 3m unemployed.

So while the system clearly has flaws, any call for its abolition would be throwing the baby out with the bathwater.

The preferable approach, which the 100 Group is taking, is to suggest constructive changes to relieve the worst of the current problems.

The most obvious and eminently simple improvement is to get rid of the antiquated rule restricting the amount of ACT paid that can be set against corporation tax due. Allowing pound for pound setoff would improve utilisation at relatively low cost.

ACT is an important tax. Flaws in its operation have been swept under the carpet for far too long. By some positive indication in the budget, such as abolishing the limitation on setting ACT against corporation tax, the chancellor would show that he recognises this and is seriously considering ways to improve the system without losing unacceptable amounts of tax.

J C Barnsley,
director of tax services,
Price Waterhouse,
Southwark Towers,
32 London Bridge Street,
London SE1 9SY

No climb down by Prince Sihanouk over Cambodia development

From E L Bindra.

Sir, The heading of the news item "Sihanouk climbs down" (January 11) is used in a derogatory manner, which means "he withdrew attention from a previously held position by admitting that he was wrong". This is not only inaccurate, but there is also absolutely no basis for such a conclusion.

The facts are that, under section III, article 6, of the Paris Peace Agreement, the UN Transitional Authority in Cambodia (Untac) had to take direct control of the ministries of foreign affairs, defence, public security, finance and information, as well as other administrative agencies, bodies and offices, which could directly influence the outcome of the elections. Besides, all the civil police were to operate under Untac's direct control or supervision in order to ensure that law and order are maintained effectively and impartially, and that human rights and fundamental freedoms are fully protected. Unfortunately Untac failed to implement it properly, with the result that the Vietnamese installed a communist regime in Phnom-Penh (though less brutal than the Khmer Rouge, it has always suppressed dissent; its human rights record has been criticised by Amnesty and Asia Watch), which has been attacking and intimidating both the non-communist factions, so that they should not carry on their electioneering campaigns outside Phnom-Penh.

Prince Norodom Sihanouk had denounced the Phnom-Penh faction for a series of bombing and other attacks on both the non-communist parties, and also Untac for not controlling the violence (as it had not taken full direct control of the administration). The prince had warned on December 14 1992 that, unless both acted vigorously "against the poisoning of public atmosphere ... and such injustice and political terrorism", he would stop co-operating with them. As the intimidation and killing of non-communist functionaries increased in the next fortnight, he had no option but to stop co-operating with them.

It had the desired effect. Mr Akashi (Untac chief) asked Untac to take full control of the situation, to create a neutral political environment. He called on Prince Sihanouk in Beijing on January 8, and explained to him the action he had taken. He further assured the prince that both the non-communist fronts will no longer be intimidated in future, and will be properly protected from attacks by the Phnom Penh faction.

The prince accepted the assurance, and agreed to co-operate. Though he is ill, he even agreed to preside over a meeting of the supreme national council of Cambodia in Beijing, at the end of the month, to solve some urgent problems.

As such, by no stretch of the imagination is this a "climb down". Instead of complimenting Prince Sihanouk for his achievements, he is sneered at. This reminds me: "East is East, and West is West, and never the twain shall meet."

K L Bindra,
15 Elmstead Avenue,
Wembley,
Middlesex

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FINANCIAL TIMES
Number One Southwark Bridge, London SE1 9HL
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Tuesday January 19 1993

The carrot and the stick

THE ESCALATING confrontation between Iraq and the western allies has all the grim inevitability of a play in which both sides are playing prescripted roles when neither can be sure of the ending. *President Saddam Hussein* constantly tests and taunts the allies' resolve; the US, Britain and France respond with shows of military force that are designed to punish him but may serve to bolster his standing at home and in the wider Arab world.

What the allies lack at present is a coherent political strategy to match their military muscle. This is worrying, for without one they may be condemned to further escalation almost for its own sake, with the eventual risk of a serious foreign policy debacle.

It is not that a specific rationale is wanting for the west's individual actions. The air raids on anti-aircraft missile systems last week and yesterday are politically justifiable in that they are designed to remove threats to the implementation of the no-fly zones imposed over the north and south of the country in defence of Iraq's Kurdish and Shia Moslem populations. Sunday's cruise missile attack on a nuclear component plant in the outskirts of Baghdad was defensible as an appropriate response to Saddam's persistent refusal to give UN inspection teams unconditional access to military facilities.

But as the attacks, and Saddam's "cheat and retreat" tactics, continue, it must be asked: what, overall, is the west trying to achieve? And in what way do its actions, taken as a whole, bring that goal closer?

Far from clear

If the answer to the first question is Saddam's removal from power, it is far from clear from official statements in Washington, London and Paris. The emphasis, rather, is on the more limited tasks of enforcing the terms of the Gulf war ceasefire and helping to protect Iraqi citizens from their leader's worst excesses.

This obfuscation is understandable. It would be hard to imagine a strategy aiming explicitly at the toppling of Saddam securing a consensus in the UN Security Council, any more than such an objective was a formal aim of the broad-based coalition that fought the Gulf war two years ago. Even if the western allies did spell out their desire to remove the Iraqi leader, they are most unlikely to be able to do the job themselves.

It may be argued, by extension, that further explanation of western strategy is unnecessary, that measured, *ad hoc* military strikes are sufficient to contain the threats posed by Saddam to his neighbours (through invasion or the accumulation of weapons of mass destruction) and to his own citizens. The problem with this line of reasoning is that it condemns the allies to a pace and intensity of action determined by the level of provocation offered by Saddam. This is doubly true at a time when the leadership of the western world is in transition. Saddam is watching intently for any sign of diminished resolve on the part of the incoming US president; the logic of force almost demands that he step up the pace.

Searching reappraisal

Mr Bill Clinton will have to conduct a searching reappraisal of US Gulf policy. First, he has no alternative to continuing to seek full Iraqi compliance with the Gulf ceasefire. Second, he must build on the existing effort to protect the Kurds and Shias, whose repression is acknowledged as another source of regional instability, by warning Saddam that western air power will be used against attempts to interfere with international relief supplies. Third, he should muster a broader international force to defend Kuwait's borders, which remain alarmingly vulnerable to Iraqi incursions.

Fourth, and most important, he should attempt to elaborate a political strategy aimed not at directly toppling the Iraqi leader but at encouraging Iraqis to do so. Alongside the stick of military action, he should hold out the carrot of US co-operation provided Iraq adopts a regime that respects the will of the international community and the dignity and well-being of its own citizens. In place of the unmitigated despair Iraqis are experiencing today, he should offer the conditional hope of a lifting of sanctions. By clearly enunciating such a prospect, he may just make it possible.

How to target inflation

JUDGED BY what the chancellor said over the weekend, lower interest rates are not to be expected in the near future. The justification for such caution at a time of the barest whispers of recovery was the need to keep underlying retail price inflation within the target range of 1-4 per cent established after sterling's exit from the exchange rate mechanism. Is this either the right goal or the best indicator for policy?

The case for making control over inflation the principal aim of monetary policy remains strong. This is not just because low inflation is desirable in itself. It is at least as much because of the costs of instability. Attempts to lower inflation may create irreversible economic damage. For this reason, monetary policy must try to keep inflation as stable as possible, rather than permit the wild swings characteristic of the British stop-go cycle.

The problem is not with the ultimate aim, but rather with how its achievement is measured. Overdue reliance on the annual change in the RPI suffers from several drawbacks. First, it shines its spotlight on what may turn out to be irrelevant economic history, although the effects of current monetary policy on future inflation ought to be the main concern. Second, pursuit of a target for the RPI is likely to prove economically destabilising, following devaluation. Third, a target for the RPI does not provide wage bargainers with a reference point as clear as the exchange rate.

Worrying expectations

What should matter to monetary policy is not past inflation, but expectations for the future. As it happens, these expectations are worrying. The Treasury pointed out in last week's Monthly Monetary Report that the gap between returns on conventional and index-linked gilts is not only 5 percentage points at the long end, but is also 0.2 percentage points up on the previous month. Investors doubt the government's integrity, a fact that helps to justify the chancellor's caution.

The RPI will also be affected by the devaluation, now 10 per cent since just before September 16. Many seem horrified that devaluation may be passed through into prices. They should not be. A devaluation was needed to increase the incentive to produce tradable goods and services. It does so by raising their relative prices. But the most important relative price is that for labour, which must fall if a devaluation is to work.

Blip in inflation

If the government responds to the needed blip in inflation following devaluation by tightening monetary policy further, it will destabilise the real economy. What monetary policy must avoid is a rise in earnings in response to the higher retail prices. Particularly in the aftermath of devaluation, the relevant indicators of inflation are pay and earnings, not the RPI.

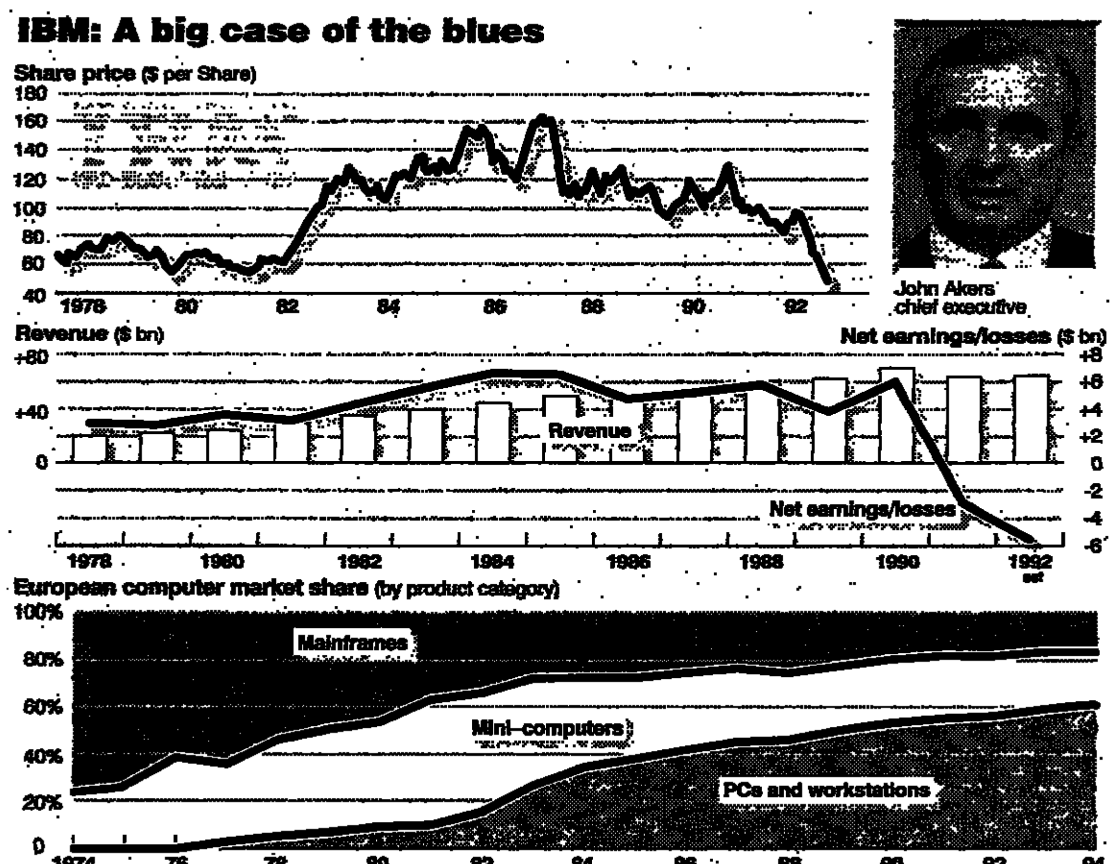
Pay and earnings should in fact be a permanent target. The government – or, better still, an independent Bank of England – should take a leaf out of the Bundesbank's book, by stressing the link between its monetary policy and pay trends. In so doing, it would be targeting not merely one of many indicators of underlying inflation, but its principal determinant. It would also avoid policies that bring about largely cosmetic improvements in underlying inflation by squeezing profits. Above all, it would give pay-bargainers a clear reference point, something lost when sterling was devalued.

As it happens, the evidence on pay and earnings, like that on inflationary expectations, underlines the case for caution. An appropriate target for the annual increase in earnings might be 2-5 per cent. While pay settlements may be easing below 4 per cent, earnings were last reported to be rising at an underlying annual rate of 5¼ per cent. Even though the rate has been declining in recent months, it is still not securely within the desired range.

The chancellor is right to be cautious, though somewhat lower interest rates may soon be justified. But he is not so obviously right in how he is targeting inflation. The country needs a clear link between changes in monetary policy and in pay, the principal determinant of underlying inflation. The RPI is not a sensible indicator, particularly after a devaluation. The chancellor should carry on fighting, but first he must choose the right targets.

A separation of powers

IBM is reducing its reliance on mainframe computers and creating autonomous business units in an attempt to reverse its decline, say **Louise Kehoe** and **Alan Cane**



Source: Datastream and OTR Pedder

John Akers: chief executive

International Business Machines, the world's largest computer manufacturer and a symbol of US technological prowess, is today expected to report the biggest annual loss in US corporate history.

Wall Street is forecasting total losses for 1992 to be about $4.7bn, after taking into account pre-tax charges of $11.4bn to pay for continuing cuts in the company's workforce and the consolidation of manufacturing operations.

It will be the second consecutive year that "Big Blue" has reported a loss and the US financial community has delivered a damning verdict on the company's performance. IBM's stock was yesterday trading at below $50 a share, down from over $100 as recently as July. Last week, the company's AAA credit rating was downgraded to AA minus by Standard & Poor's.

Today's results will add to the gloom surrounding IBM. But of even greater significance to investors in the company, its customers and its rivals and allies in the international information technology industry will be the company's fate over the next five years or so. Can IBM survive as the leading company in the world's information technology industry or is it doomed to a protracted decline?

Until recently, such a question would have seemed unthinkable. Few companies have had such power to set standards, influence trends and exert leadership in an industry as IBM has for the past 30 years. Now only one thing is certain. The company must change radically if it is to regain its strength and profitability. The corporate structure on which IBM was built is increasingly obsolete. The markets it has dominated have been reshaped by advances in semiconductor technology that have reduced sharply the cost of computers and the gross profit margins of computer manufacturers.

This trend has been under way for several years, but as IBM's chairman John Akers told US analysts before the turn of the year, the rate of change is accelerating: "Advances in technology are placing more function, more power and more memory in ever-smaller semiconductor chips, while proprietary technologies are declining in value as industry-standard building blocks become the norm."

Many computing tasks that once ran on mainframe computers – the large centralised systems which have traditionally been IBM's main product – can now be carried out on networks of smaller, less expensive machines. This has played to the strengths of a new generation of Silicon Valley competitors which have lower costs and more flexible production and which have responded more quickly to changing market demands. This is the primary cause of the current downturn at IBM. It has been exacerbated by weak global economic conditions which have depressed demand for its products.

Faced with a choice between a multi-million dollar investment in an IBM mainframe and less expensive computer networks, information systems managers within companies are increasingly choosing the latter option.

"Today, information systems managers are afraid to expose themselves within an organisation by paying the high price of IBM mainframe computer power," says Mr John Jones Jr, an analyst at Salomon Brothers in San Francisco. His comment is a startling revision of the old adage that nobody was ever fired for buying IBM.

Mr Jones estimates that IBM's mainframe revenues declined by almost 15 per cent last year to $9.3bn from $10.9bn in 1991. Sales of related products – such as data storage systems and printers as well as software and services which, combined, represent about one-third of turnover – have also suffered.

IBM was built to sell mainframes. It has the structure, the sales and support operations, the manufacturing and research and development goals, and the high overheads of a mainframe computer company. Yet mainframes seem unlikely to provide IBM with significant opportunities for growth.

IBM's dilemma is vividly illustrated by an analysis of the company's biggest market, Europe, carried out by OTR Pedder, a Brussels consultancy. It shows (see chart) that in 1974, when IBM was enjoying its greatest success, mainframes comprised almost 80 per cent of the hardware market by value. Today, the corresponding figure is only 20 per cent. From nothing in 1976, personal computers and workstations have grown to more than 60 per cent of the market by value.

The challenge facing IBM, therefore, is to make a transition from a company heavily dependent on high-margin mainframe sales to a smaller, more flexible organisation with a stronger presence in faster-growing areas of the computer market such as personal computers, workstations, networking systems, consumer products and computing services.

IBM was built to sell mainframes. Yet mainframes are unlikely to provide fresh opportunities for growth

IBM has already taken steps to reduce costs. It has shed about 100,000 employees and reduced manufacturing capacity by 40 per cent since 1986. A further 25,000 jobs, or 8 per cent of the workforce, will go this year. Research and development spending, the seed corn of success in the computer business, will be cut from $9bn to $8bn this year.

These measures have made an impact. Revenue per employee, a measure of efficiency, is now $213,000, more than its competitors Digital Equipment and Hewlett Packard.

But most industry analysts believe further reorganisation is necessary. Mr Mark Stahlman, author of a soon-to-be published study Why IBM Failed, remains critical: "For all its restructurings over the last few years, IBM has consistently chosen to nibble the bullet instead of bite it."

The company may now be ready to cut deep into previously sacrosanct territory. Mr Akers' pre-Christmas announcement that most of the 25,000 jobs to go this year will be in sectors supporting the mainframe business was regarded as a watershed by many within IBM.

The cornerstone of Mr Akers' strategy, however, launched at the end of 1991, is to decentralise management and turn IBM from a monolith into a "federation of increasingly autonomous and independent business units" that are more flexible and able to compete more effectively in their own segments of the computer market.

Known as the "Baby Blues", the first of these fledglings have been the IBM PC Company, formed last September to take over all the company's personal computer operations; Adstar, formerly IBM's data storage division; and Pennant Systems, IBM's high-speed printer operation. So far, the results seem promising. Last November the IBM PC Company achieved the highest monthly volume of PC shipments in IBM's history. It earned revenues of about $9bn in 1992 – making it the world's largest personal computer company – and is expected to be profitable this year.

Adstar, the data storage business, has established itself as an important supplier in the industry. It is the leader in the rapidly growing market for high capacity 3.5-inch disc drives, which store computer data, and achieved an estimated $800m in sales to outside customers in 1992. Pennant Systems, with revenues of $2bn, is expected to show a small profit for last year.

There are criticisms, however, that IBM is not moving fast enough to give autonomy to other segments of the business. Mr Stahlman maintains, for example, that in workstations (high performance desktop computers) – the fastest growing segment of the computer hardware business – IBM's product development and manufacturing operation is hampered by an inability to create its own strategic relationships in a highly competitive market.

Increased autonomy for IBM's operations is of particular importance in the service sector, an area that represents one of the company's best opportunities to return to profitability.

Sales of computing services – including consulting work, software, project and facilities management, and systems integration – are growing at about 25 per cent a year compared with less than 5 per cent for hardware.

IBM is expanding its services operations, establishing new business units worldwide and pricing its services aggressively to attract business. Already, more than 40 per cent of IBM's revenues come from software and services: "In four or five years, IBM may no longer be a dominant force in hardware products but it will be a computer services powerhouse," says Mr John Logan, vice-president of the Aberdeen Group, a Boston consulting and market research group.

'For all its recent restructuring, the company has consistently chosen to nibble the bullet instead of bite it'

IBM's ambitions in computing services have produced a hostile response from competitors. Mr Keith Burgess, managing partner for Andersen Consulting in the UK says: "I find it a desperately cynical suggestion that any hardware manufacturer or software house can enter the upper echelons of the consulting business just like that. . . .The skills of the line manager are not the skills to effect the step changes in performance that are the hallmark of the effective consultant."

Impartiality in recommending equipment is another potential problem. In the US, IBM has formed a subsidiary, Integrated Systems Solutions Company (ISSC), to create a buffer between its sales and consulting operations.

Since ISSC was formed in May, 1991, it has won some impressive contracts including a 10-year, $3bn deal to manage McDonnell Douglas's IT operations.

Beyond restructuring its operations to address existing markets more effectively and shifting resources into the service sector, IBM is pursuing new business opportunities:

- It is beginning to focus on consumer electronics where the convergence of computer, communications and consumer electronics technologies is widely expected to create the next "blockbuster" electronics product. Mr David Robinson, president of the consultancy CSC Index points to the potential of a device small enough to fit the pocket, cheap enough for the mass consumer market and powerful enough to transmit voice, data and images over communications networks.

IBM demonstrated a prototype of such a device at the Consumer Electronics Show in Las Vegas earlier this month. The 16-ounce "personal communicator" combines PC power, and electronic mail with cellular telephone and fax capability.

"Whether or not this technology becomes an actual product is not really the issue," says Jack Kuehler, IBM president. "The device is only the 'razor'. Our intent – and our core business – is to provide the 'blades' of on-line services, communications, visual content and information entry."

- Technology alliances are another element of IBM's recovery strategy. Among the most significant is its partnership with Apple Computer. In a joint venture called Taligent the two companies are developing personal computer software that analysts believe may challenge Microsoft's dominance of the PC software market. "IBM handed the PC industry to Microsoft on a silver platter when it adopted Microsoft's DOS operating system in 1981. Now it is fighting to regain control," says Mr Jones of Salomon Brothers.
- IBM is also expanding it sales of technology and components to other companies in the industry. In particular, its semiconductor division is seeking external sales rather than producing chips solely for internal consumption as it has done until recently. As the world's largest semiconductor manufacturer it has the resources and the technology to become a significant competitor in this market.

Implementation of these strategies implies the emergence of a different corporate structure. But few within the company or the industry see an alternative to Mr Akers' plans. Most also agree that success will depend to a large extent on the degree of autonomy afforded the new businesses and operations.

"IBM's willingness to let go of the reins and allow subsidiary businesses to develop according to their own internal logic is still the great question facing the company," write Mr Charles Ferguson and Mr Charles Morris, authors of Computer Wars: How the West Can Win in a Post-IBM World, to be published next month. They blame IBM's problems on its tendency to impose "mainframe style management" on businesses where it is inappropriate.

Recovery will also require patience. "IBM is like an aircraft carrier that takes five or 10 miles to turn around in an age of speedboats," says Regis McKenna, a respected computer industry consultant and author of Who's Afraid of Big Blue, an account of the success of Silicon Valley companies in their contest with IBM. "Companies such as Sun Microsystems and Apple Computer grew up in a competitive environment. IBM grew up in the 1950s, when it could control the market environment," he says.

"Now it has to learn to become interdependent with the market. It will take a long time, at least five years, to turn IBM around," Mr McKenna predicts.

OBSERVER

Routinely royal rumpus

■ If the more nervous members of Britain's embattled royal family think that the whole world is agin'em, they might take comfort from the current royal rumpus in Malaysia.

Threatened with being stripped of some of their favourite privileges – such as a routine right to legal immunity – the country's nine sultans have not been getting a good press lately.

The local media, which tends to toe the government line, has been regaling the public with all sorts of alleged royal misdeeds, ranging from tales of lavish parties, and prodigious gambling, to overspending on imported luxury limos and air-conditioned stables for their finest polo ponies. Indeed, one golf-mad sultan is alleged to have assaulted, and killed, his caddie in a fit of rage.

However, Malaysians have been getting most upset by the latest revelation of the sultans' high living – a £7m boondoggle paid for out of the public purse.

Its purpose? To decide on the location for a royal viewing of the moon – apparently something of a favourite pastime among the sultans.

It's alleged that the sultans used the meeting to get up to other less than courtly pranks – like locking a senior government official in a kennel and roundly abusing several others.

Now that's Observer's kind of dirty tricks.

Propped-up

■ As Michael Heseltine prepares his White Paper to save the coal industry, the question arises of what to name the coal levy which is bound to feature in his plans. The electricity analysts at Robert Fleming Securities are proposing Coal Energy Central Intervention Levy, or CECIL, summoning the ghost of Lord Parkinson, the erstwhile energy secretary.

Observer prefers PITS for Pour In The Subsidies.

Cheesed off

■ It has long been an adman's axiom that if you can't find anything interesting to say about a client's product, mount a teaser campaign.

Even so, the latest efforts by Coca-Cola and Lowe Howard Bell, its British advertising agency, to drum up free publicity betray signs of unusual desperation. Summoned yesterday to a "major mystery announcement" at St Martin's Theatre in London, home of the long-running whodunnit "The Mousetrap", hacks were treated to a tedious presentation by a top Coke executive which included a man dressed as Kaiser Bill and a small inflatable zeppelin.

'If we held a war and no one turned up, we'd use cruise missiles instead'

These, it finally turned out, were the improbable themes of a UK commercial for Tab Clear, a new colourless diet cola. No figures were available for sales targets, the ad budget or even Coca-Cola's UK sales last year.

But as it happens, the same product was announced a month ago in the US, where Tab's once-commanding share of the diet cola market has shrunk to less than one per cent, and followed the launch of a similar soft drink by arch-rival Pepsi.

Even as self-important a company as Coke should realise that if a secret is really worth revealing, it will be faxed around the world in a matter of hours. If it wants to attract media attention, it had better invent a better mousetrap next time.

Bank byting

■ One of the big unknowns of early 1993 is how Barclays Bank will address the continuing institutional pressure to split the role of chairman and chief executive. There is even talk of Barclays looking as far afield as the US for a new ceo.

In the meantime one man to watch is 45-year-old information technology supremo Joseph De Feo, who has only been with the bank for three years. Big banks have to get their operating costs down if they are to survive, and De Feo is the man in the hot seat at Barclays.

He has a lot in common with Gene Lockhart, Midland's ex-technical wizz. Both are straight-talking Americans who have made their reputations on Wall Street rather than in UK branch banking. Pride of place in De Feo's office goes to a huge Louisville Slugger baseball bat and he is not afraid to describe Barclays property lending binge as "dumb".

Unlike Lockhart, who was promoted to the Midland board within a year of joining, De Feo has not yet made it into Barclays' inner sanctum. He's also said to earn rather less than the £725,844 Lockhart commanded at the peak of his popularity.

However, in much the same way that Lockhart's future was tied closely to that of his boss, Sir Kit McMahon, De Feo's high flying career also depends on the star of current Barclays' chairman Andrew Buxton remaining in the ascendancy.

Blinkered

■ The audience at the conference in London yesterday on how to compete for £1.5bn of government services received the usual bulky pack containing the main speeches, names of participants and arrangements for the day. Participants hoping to learn more from William Waldegrave's speech on "The government's vision", however, were surprised to find only a blank page.

Prime minister John Major is known to be worried about his lack of the "vision-thing", but that's ridiculous.

Shrinks' links?

■ Can there be a connection between the first three topics scheduled for learned discussion at the British Psychological Society's conference in April?

They are Male sexuality, Memory, and MPs' workload, stress and family life.

FINANCIAL TIMES
Tuesday January 19 1993

Funds to help lira's return to ERM 'as soon as possible', say officials

EC approves Italian loan deal

By Lionel Barber in Brussels

AN Ecu8bn (£6.5bn) balance of payments loan to bolster Italy's efforts to control its huge budget deficit and overhaul its economy was approved yesterday by European Community finance ministers.

The loan, which is conditional on periodic EC reviews of the budgetary programme, imposes an external discipline which the government of Mr Giuliano Amato views as vital to winning political support at home.

Italy asked for the loan last October, partly to offset the loss of reserves used to support the lira during the September crisis inside the European exchange rate mechanism. Greece and Italy have received similar loans, but this is believed to be the largest medium-term balance of payments loan for which the EC has used its own guarantees to raise money on the capital markets.

According to the agreement reached yesterday in Brussels, Italy will be paid the loan in four tranches of Ecu2bn, two to be paid this year no earlier than February 1 and July 31 respectively; the last two will be paid in 1994 and 1995.

Mr Henning Christophersen, EC economics commissioner, outlined four conditions.

● The ratio of Italy's debt to GDP will peak in 1994 to 112½ per cent and will then begin to fall.

● Italy will take further fiscal steps if the government's borrowing requirements increase.

● The government will pursue reforms in health, pensions, the civil service and local finance.

● Disbursement of the loan will be on "performance not dates", according to Mr Christophersen.

Before September 1994, the Italian government, working with the EC Commission, will reassess budget targets for 1995.

Italian officials said the loan should help pave the way for the re-entry of the lira into the ERM "as soon as possible", as part of the central bank's efforts to replenish its reserves. But re-entry must be at a "sustainable parity" which would prove lasting, according to Mr Piero Barucci, Italy's Treasury minister.

Mr Christophersen paid tribute to the Amato government's "courageous measures" to reform the economy, but said it was his impression that Rome favoured a step by step approach to the ERM: "It is a little too early to define a realistic exchange rate (for the lira)." Mr Horst Köhler, state secretary in the German ministry of finance, said ministers were looking forward to seeing the lira return to the ERM, but "on a solid basis".

Clinton says sound economy is key to US foreign policy

By Jurek Martin in Washington

MR BILL CLINTON, who is to be sworn in as president tomorrow, yesterday promised both continuity and change in his administration's conduct of foreign policy.

In a speech to diplomats at Georgetown University, his alma mater, he said he would build on the successes of his predecessors "in specific areas". He cited the Middle East peace process, nuclear arms control and proliferation, the humanitarian operation in Somalia, the support for reform in the former Soviet Union and the creation of new and expanding markets around the world.

"Yet, the world has changed in fundamental ways and we must change with it," he went on. "We need to clearly state how we plan in the US to adapt our nation's foreign policy goals and institutions to this new era."

Mr Clinton said his foreign policy would be based on three pillars:

● The first was to make US economic security "a primary goal" of foreign policy. "We cannot sustain an active engagement abroad without a sound economy at home," he said. Essential to this was a system of global commerce "rooted in principles of openness, fairness and reciprocity".

● US armed forces would be restructured to meet new and continuing security threats. Prudent cuts in defence spending were necessary, but that did not mean a lessening of US resolve, he said. "When necessary we will not shrink from using force when all appropriate diplomatic measures have been exhausted."

● The US would encourage the spread of democratic values worldwide. "Democracies do not wage war against one another. They make better partners in trade and diplomacy. And, despite their inherent problems, they offer the best guarantee for the protection of human rights."

Specifically, Mr Clinton promised to work through the United Nations and other international institutions to resolve contentious disputes.

"America cannot and should not bear the world's burdens alone," he said, "but the Gulf war and the humanitarian relief operation in Somalia demonstrate what is best about the UN."

Apart from the now obligatory warning to Iraq, his speech was essentially another of the inaugural rites of passage and was not intended to break new ground.

Nevertheless his insistence that prudent cuts in defence spending were achievable serves as a reminder both to his domestic defence establishment, which is resisting them, and to US allies, from Japan to Nato, that this is one campaign promise he intends to keep.

Bank losses blamed on government policy

By Robert Peston, Banking Editor, in London

MISTAKES in the UK government's economic policy in the 1980s were a significant cause of the huge losses now being suffered by the country's banks, Mr Robin Leigh-Pemberton, governor of the Bank of England, said last night.

His remarks come at a time when relations between the banks and the government are strained. He did not address the Treasury's allegation that banks are behaving insensitively in their dealings with financially stretched small businesses.

But he expressly denied a claim being investigated by the Treasury that lending margins have widened significantly.

Mr Leigh-Pemberton, who is due to retire in June, said poor credit assessment by banks was also a factor in causing the loan losses. But he absolved the Bank's supervision department of any blame. "Supervisors ... cannot and should not second guess the management of individual institutions", he said.

The main role of the supervision department was to prevent damage to the financial system. "The UK banking industry is well placed to absorb the pressures of the longest and deepest recession in many decades."

UK banks have suffered billions of pounds of losses on loans made in the mid-1980s. Many of the bad loans were to property companies or were backed by property collateral.

Mr Leigh-Pemberton said "it was not surprising that banks sought to increase the volume of their lending [in the 1980s] ... it may well be that banks, lulled by the strength and the persistence of the upswing, became less sensitive to cyclical risks".

He added: "Many financial arrangements that had seemed reasonable in the heady days of the 1980s, reasonable even against normal expectations of cyclical behaviour, were fatally undermined by the length and depth of the recession."

He said the recession would not have been so deep if the government had not allowed the growth rate immediately before to be excessive. "The lesson for policymakers is that we can never afford to take risks with stability ... we need, above all, a stable monetary environment, in which policy is geared to the achievement of price stability."

Mr Leigh-Pemberton did not argue that banks were blameless for their loan losses. He identified three lessons for them:

● "Do they really pay sufficient attention to the lessons of history – for example the property crisis of the early 1970s?"

● "Did they really monitor the credit criteria which had served them well in the past?"

● "Were the incentives given to loan officers really appropriate, or did they encourage new business at the expense of sound business?"

He lectured the banks on the need to attach the highest priority to the "control and pricing of risk".

Mr Leigh-Pemberton was talking to the Chartered Institute of Bankers in Scotland.

Called to account, Page 10

THE LEX COLUMN

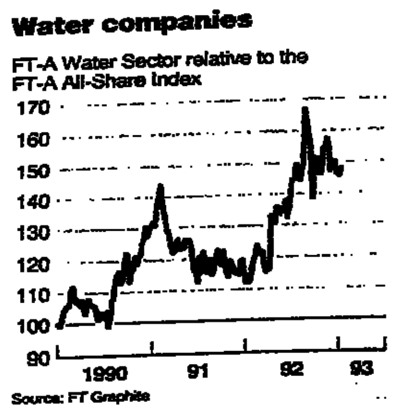
Margins of error

One would not expect Mr Robin Leigh-Pemberton to blame supervisory failure for the bad debt troubles afflicting British banks. Doubtless competition following the financial liberalisation and technical innovations of the 1980s did play a role, not to mention the government's delay in tightening policy when the economy began overheating. It all seems so obvious with hindsight. The Bank of England had worries at the time. It could have given fuller voice to them.

Bankers are congenitally prone to excess, especially in markets freed of credit controls. They need constant reminding to price risk correctly. An under-borrowed customer can quickly become risky if offered credit on terms too generous to refuse. The worst effects of the asset bubble could have been avoided if, in assessing credit-worthiness, banks had concentrated more on sustainable cash flow than availability of security. Institutions like Barclays would now spend less time doubling as property companies.

Of course, the risks would be smaller if policy were more predictable and stable. Since it is not, bankers must set their prices accordingly. Margins have not risen much in the 1990s, so they still appear not to have learned this lesson. Borrowers should not complain about margins, especially those who shopped around in the good times. They will have got what they paid for – lenders who had less natural interest in supporting them when times became tough. One lesson of the recession is that long-term banking relationships may be worth paying for.

FT-SE Index: 2763.1 (-2.0)



Source: FT Graphite

Allied-Lyons

Now that Allied-Lyons' joint venture with Carlsberg is finally up and running, it is worth pausing to consider the implications for the beer market as a whole. Carlsberg-Tetley is the industry's third force after Bass and Courage. With this critical mass comes a relatively good fit. Allied is strong in the on-trade with strength in the Midlands and north; Carlsberg is strong in off-trade in London and the south-east. That should help raise market share. But how quickly, and, apart from the long-suffering regional brewers, at whose expense?

Much depends on the rationalisation that must now follow. Closure of seven depots with a loss of up to 100 jobs can hardly be the end of the story. There must be more cost savings both in marketing and in production – although Allied has already made an independent start with the closure of its Romford brewery. Without greater efficiency, Carlsberg-Tetley can hardly expect to take share away from the likes of Bass, at least in the off-trade.

That will take time. The initial impact on Allied's earnings may be small. A strong third player could eventually hurt Courage which is still wrestling with a hotch-potch of brands following its deal with Grand Metropolitan. More intriguing will be the effect on Whitbread and Scottish & Newcastle. The former has suffered from the recession in the south-east but has a new marketing-oriented chairman in Sir Michael Angus. The latter boasts efficiency and strong brands, but lacks critical mass and broad distribution. If Carlsberg-Tetley is right, these are both prerequisites of success.

Sterling bonds

The government should not take too much heart from the recent slew of sterling Eurobond issues. Yesterday's issue from PowerGen brings to £1.5bn the amount raised so far this year. But the range of borrowers and maturities suggests pockets of demand for sterling bonds rather than the wave of international buying required to help fund the public sector borrowing requirement. There has been overseas interest. But with sterling hovering around DM2.50, the potential for currency gain looks hardly enough to tempt big money.

The surprise is that more companies have not moved to lock into long-term rates before the government starts borrowing in earnest this spring. While short rates are low most are evidently satisfied with floating rate bank debt. Moving to longer maturities involves higher interest payments. Even so, companies with a natural requirement for long-term funding – utilities among them – may yet regret not raising 10-year money at less than 9 per cent. The danger is not so much that the government will absorb all available institutional funds – life companies have an appetite for corporate bonds which yield a little more than gilts. Overseas investors will be needed to fund the PSBR. They may demand higher yields or a lower exchange rate before buying more sterling bonds. Any borrowers hanging on for lower interest rates are running something of a risk.

Water companies

The water companies' response to Ofwat on how the 1994 regulatory review should be conducted unsettled the market. Recent performance of the sector suggests investors are looking for reasons to switch into more cyclical stocks. But the document is little more than a gentle reminder that the industry's price limits in the second half of the decade are still undecided. Like other recent public exchanges with Ian Byatt, the tone is gentlemanly compared with the bluster between other utilities and regulators.

It is hardly surprising the industry would prefer its capital base measured on the complex basis set by government at privatisation. If Mr Byatt opts to take market capitalisation instead, as he is minded to do, the companies' current rate of return on capital would look embarrassingly high – perhaps 11 per cent. Under the original government formula the rate of return would look more modest. The industry is right to point out the flaw in valuing on the basis of market capitalisation. That figure itself would adjust quickly to changes in expectation of what the regulator would allow.

The industry is equally right that huge capital investment has to be financed. Mr Byatt may be tempted, for example, to reduce the companies' rate of return by restricting profits growth while they press ahead with capital investment. That would mean sharply higher gearing. Mr Byatt would doubtless argue that his presence would reassure potential lenders. Given the short track record of the privatised utilities, banks and bond market investors may be less certain.

Bonn coalition partners warn of cuts in social spending

By Quentin Peel in Bonn


Otto Lambsdorff: tax shortfall

THE SLOWDOWN in the German economy will mean an "inevitable" increase in the government's net borrowing requirement, as well as drastic savings through cuts in tax allowances and reduced social spending, members of the ruling coalition warned yesterday.

They hope, in talks today, to finalise plans for a substantial savings package, as part of the wider negotiations for a "solidarity pact" to finance German unification.

The package is expected to include the introduction of strict means tests to limit social payments, such as children's allowances, to the poorest, and a possible halving in the tax benefits available for home-buyers.

It will also attempt to limit the payment of unemployment benefit, to ensure that the dole does not exceed wages available for those still in work.

The possibility of substantial cuts in social payments has aroused the anger of the opposition Social Democrats (SPD). If the package is rejected by the SPD, the government will still press ahead and attempt to reach broad agreement with the trade unions and the governments of the 16 federal Länder, according to leaders of the coalition.

Both Mr Otto Lambsdorff, leader of the Free Democrats, the minority party in the coalition, and Mr Theo Waigel, the finance minister and leader of the Christian Social Union, sister party of Chancellor Helmut Kohl's Christian Democrats, took a hard line on the negotiations yesterday.

Mr Lambsdorff said there was a forecast shortfall in tax revenues for the 1993 budget of DM5bn ($3.1bn) and an increased subsidy of a further DM5bn needed for the Federal Labour Office – which pays unemployment benefit – as a result of the economic downturn.

A further DM1.5bn had been promised to Russia, partly for the accelerated withdrawal of troops from eastern Germany, DM1.5bn for the reintroduction of investment allowances in east Germany and DM4bn as direct federal subsidies for the eastern Länder.

That would make a total shortfall of some DM17bn, and Mr Lambsdorff said the coalition partners "still have to find another DM2bn or DM3bn".

Mr Waigel said in Munich that social payments, including allowances for children and new infants, would be subjected to stricter means testing, as one way of cutting the budget burden in a socially balanced way – to meet the demands of the SPD. However, both he and Mr Lambsdorff said the coalition would press ahead with the savings package, even if the SPD did not agree.

Brussels cuts EC growth forecast

Continued from Page 1

unwarranted. "Personally I believe the worst is over," he said, echoing similar statements last week by EC central bankers.

Irish officials said they believed the punt had "weathered the ERM crisis", and were visibly pleased that EC finance ministers had agreed to Dublin's request for a statement aimed at cowing speculators. But ministers were guarded about an early return of the Italian lira to the ERM, despite agreement on an Ecu8bn ($9.8bn) medium-term balance of payments loan.

At yesterday's meeting – the first high-level macroeconomic discussion at ministerial level under the Danish presidency of the EC – the mood of solidarity was dampened by the gloomy growth forecasts produced by the European Commission.

According to the Commission's projections, growth in the EC this year will fall from 1.1 per cent in 1992 to 0.8 per cent. This is lower than last month's Organisation for Economic Co-operation and Development outlook which forecast 1.2 per cent for the EC in 1993, and less than the Commission's earlier guarded hopes of growth between 1 and 1.5 per cent.

The Commission said it expected Germany to remain flat, with France and Spain each reaching a meagre 1 per cent. But the Commission said it expected 1.3 per cent growth in Britain in 1993 – marginally above the UK Treasury forecast of 1 per cent.

Mr Christophersen said the improvement was a result of a gain in the UK's competitive position following sterling's depreciation after its exit from the ERM last September, as well as the British government's success in fighting inflation.

Several EC ministers yesterday expressed polite hopes of an imminent cut in German interest rates. Mr Christophersen – along with Mr Thor Pedersen, Danish economics minister – expressed confidence that plans for a wages pact between unions and employers in Germany coupled with proposals for a tax rise in 1995 should pave the way for an early cut in Bundesbank interest rates.

Ministers also agreed to accelerate plans for an EC growth package, including a new European Investment Bank lending facility to finance roads and telecommunications.

World Weather

		°C	°F			°C	°F			°C	°F
Ajaccio	C	12	54	Boulogne	S	9	48	Frankfurt	F	7	45
Algiers	S	18	64	Brussels	F	8	46	Geneva	S	7	45
Amsterdam	S	7	45	Budapest	Fg	-1	30	Gibraltar	C	15	59
Athens	S	16	61	Buenos Aires	R	29	84	Glasgow	C	5	41
Bahrain	S	12	54	Cairo	S	17	63	Helsinki	F	3	37
Bangkok	C	31	88	Cape Town	S	24	75	Hong Kong	C	7	45
Barcelona	C	12	54	Caracas	C	26	79	Innsbruck	S	6	43
Beijing	S	-3	27	Casablanca	S	15	59	Inverness	S	3	37
Beirut	S	15	59	Chicago	S	-13	9	Islamabad	F	13	55
Belfast	C	3	37	Cologne	F	8	46	Istanbul	S	9	48
Belgrade	S	9	48	Copenhagen	F	5	41	Jakarta	R	29	84
Berlin	S	7	45	Corfu	S	12	54	Johannesburg	F	31	88
Biarritz	S	14	57	Dallas	Dr	7	45	Lisbon	S	10	50
Bombay	S	27	81	Dublin	F	8	46	London	S	8	46
Bordeaux	Fg	6	43	Dubrovnik	S	12	54	Los Angeles	F	12	54
				Edinburgh	F	4	39	Luxembourg	C	5	41
				Faro	F	15	59	Madeira	F	15	59
				Florence	C	11	52	Madrid	S	6	43

		°C	°F			°C	°F			°C	°F
Majorca	S	16	61	Oporto	S	11	52	Tenerife	C	19	66
Malaga	S	15	59	Oslo	F	5	41	Tokyo	R	5	41
Malta	F	15	59	Paris	S	7	45	Toronto	S	-13	9
Manila	C	31	88	Prague	F	7	45	Tunis	S	14	57
Melbourne	F	19	66	Reykjavik	F	-4	25	Valencia	S	13	55
Mexico City	F	0	24	Rhodes	S	17	63	Venice	C	6	43
Miami	C	16	61	Rio d'Janeiro	F	0	36	Vienna	S	12	54
Milan	C	5	41	Rome	C	12	54	Warsaw	F	8	46
Montreal	S	-15	5	Salzburg	S	9	48	Washington	S	1	34
Moscow	C	4	39	S'Francisco	C	9	48	Zurich	F	5	41
Munich	S	11	52	Seoul	F	-5	23				
Nairobi		–	–	Singapore	F	31	88				
Naples	F	14	57	Stockholm	C	5	41				
Nassau	R	30	86	Strasbourg	C	6	43				
New Delhi	S	15	59	Sydney	F	31	88				
New York	S	-3	27	Taipei	C	12	54				
Nice	S	13	55	Tangier	S	17	63				
Nicosia	S	16	61	Tel Aviv	S	14	57				

Temperatures at midday yesterday
† Noon GMT temperatures
C–Cloudy Dr–Drizzle
F–Fair Fg–Fog H–Hail
R–Rain S–Sunny
Sl–Sleet Sn–Snow
T–Thunder

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COMPANIES & MARKETS
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INSIDE

Philips lights up in North America

Philips, the Dutch electronics group, struck operating profit in North America with its lighting division last year for the first time since 1984. Mr Einar Kloster, president of Philips Lighting, said the company had "caught up" with the competition in new lighting products after falling behind at the beginning of the 1990s. But he predicted 1993 would prove a "very tough" year for lighting. Page 20

Yves Saint Laurent speculation

Trading in shares in Yves Saint Laurent, the fashion and cosmetics company, and Elf-Sanofi were suspended amid speculation that YSL might be selling a significant share stake to Elf-Sanofi, the pharmaceuticals and beauty products arm of the state-owned Elf-Aquitaine oil group. Page 20

Floating pound buoys Photo-Me

Sterling's devaluation helped Photo-Me International, the world's largest photo-booth manufacturer and operator, lift pre-tax profits by 21 per cent to £10.5m ($16m) in the half year to end-October. Mr David Miller (left), chief executive, said the best measure of underlying performance was the 12 per cent growth in operating profits. Page 24

Qantas to axe 1,835 jobs

Qantas, the government-run Australian airline, plans to make 9 per cent of its workforce redundant over the next two years to help cut costs by A$158m ($109m) a year. Page 22

Lean harvest from soft sell

Most British farmers are far more interested in better production than in trying to market their produce, hence the growing penetration by EC competitors of the British food sector. Fundamental marketing deficiencies of UK agriculture are the lack of organisations big enough to apply real leverage against the retail giants and a piecemeal approach to promotion and quality assurance. Page 26

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Chief price changes yesterday

FRANKFURT (DM)			PARIS (FFr)		
Rises			**Rises**		
Allianz AG	2057	+ 72	BIC	1080	+ 33
Hochtief	976	+ 55	Castorama	163.5	+ 8.5
Hoechst	255.8	+ 9.2	Ecco	422	+ 11.5
Metallgesellschaft	348	+ 14	Gaumont Soc N	325	+ 15
Schmalbach Lub	330	+ 13	Valfond	155	+ 10.2
Falls			**Falls**		
Asko	590	− 16	Franck Printemps	586	− 29

NEW YORK ($)			TOKYO (Yen)		
Rises			**Rises**		
BankAmerica	49 1/4	+ 1 7/8	Nippon Foil	314	+ 26
Chase Manhattan	29 3/4	+ 3/4	Nippon Kasei	268	+ 18
Citicorp	23 1/2	+ 3/4	Sanyo Denki	469	+ 26
Falls			**Falls**		
Centocor	8 7/8	− 10 3/8	Mitsui Wharf	581	− 44
Hewlett Packard	71 7/8	− 1 1/4	Nitto Chemical	375	− 25
Texas Insts	54 1/2	− 1 1/4	Ube Chemical	343	− 15

New York prices at 12:30.

LONDON (Pence)					
Rises			Ratners	18	+ 2
Aberdeen Pet	10	+ 1 1/2	Resort Hotels	42	+ 3
Bailey (CH)	6 1/2	+ 1 1/2	Rolls-Royce	112	+ 5
Beazer Homes	22	+ 6	Shaftesbury	52	+ 5
Bus Cycle	208	+ 12	Whitecroft	37	+ 3
BullDurgMget	208	+ 10	Yorks-Tyne TV	135	+ 14
Caldwell Invs	33	+ 5	**Falls**		
Bodinas Hse	56	+ 3	Ascis Prop	56	− 4
Falls			Antva Pet	30	− 3
Lep Group	6 3/4	+ 2	Dunelon Tyson	31	− 4
Liberty	663	+ 26	RealTimeCntl	76	− 15
Mower-Swart	590	+ 20	Tay Homes	151	− 17
Neotronics	174xd	+ 11			
Owl Ind	24	+ 2			
Ocean Group	265	+ 15			

Unilever and BSN in iced snack joint venture

By Guy de Jonquières, Consumer Industries Editor

UNILEVER, the Anglo-Dutch food and consumer products group, and BSN, France's largest food company, have formed a joint venture to develop and market worldwide a range of new products combining ice cream and yoghurt.

Unilever is the world's largest maker of ice cream, with sales last year of about £1.6bn ($2.5m) in 30 countries, while BSN is the biggest producer of yoghurt, with sales of almost FFr24bn ($4.4bn) last year.

The venture appears intended to exploit growing demand among health-conscious consumers for new types of frozen desserts and snacks. Demand is strongest in the US, where sales of products such as frozen yoghurt have recently increased rapidly. However, the joint venture will focus initially on France and Spain, where it plans to launch products soon.

Sales will be expanded to other countries later. The two companies said the worldwide market for the venture's products, described as "combining the ideal properties of yoghurt and ice cream", could eventually amount to hundreds of millions of litres.

Marketing of the products is expected to rely heavily on the companies' leading brand names. Unilever's ice cream brands include Motta in France, Frigo in Spain and Wall's in Britain, while BSN's main international yoghurt brand is Danone.

No figure was given for the initial investment in the joint venture, which will be equally owned and use existing facilities provided by the two partners. Based in Paris, it will be headed by a steering committee of three managers from each company under a rotating chairmanship, while Unilever will provide operational management.

Mr John Campbell, food industry analyst with County NatWest, said the venture would probably enjoy reasonable growth potential, though prospects in Europe were uncertain because the market was still largely undeveloped there.

BSN has relied increasingly on alliances and partnerships to enter new markets, such as Italy, China and Japan. However, Unilever has traditionally preferred to have full control of its businesses. However, the Anglo-Dutch group recently formed a joint venture with PepsiCo, the US soft drinks and snacks group, to sell canned iced tea.

Spanish energy group announces $500m share issue

By Tom Burns in Madrid

REPSOL, the Spanish state-controlled energy group, is to raise at least $500m through an international issue of shares that will reduce the government's ownership of the company to less than 50 per cent.

The share placing, which is likely to go ahead within three months, will be the first of several disposals of state shareholdings scheduled for this year as the government seeks to reduce its budget deficit by asset sales.

Repsol said yesterday that Lazards was advising in the design of the share offer and that issue managers would be decided shortly. The placing, aimed at institutional investors, is likely to marketed aggressively in the US, Europe – notably in the UK – and Japan.

In a circular last month inviting bids to lead the placement syndicate, Repsol indicated it was seeking to raise more than $500m. At current market prices – Repsol is trading at $24 a share, which is close to its historic high – the conglomerate would be putting some 7 per cent of itself on the market and the state-held equity in Repsol would fall from 54.5 per cent to 47.5 per cent.

The placement has been made possible by last year's repeal of legislation that had made majority public ownership of Repsol mandatory.

Similar legislation has been approved that allows public ownership of Tabacalera, the domestic tobacco producer and distributor in Spain, to drop below the 50 per cent mark.

Under the framework of the 1993 budget, the Spanish exchequer aims to raise $1.3bn through the partial privatisation of state-controlled companies.

Analysts believe the Repsol placement will be followed by share offerings in Tabacalera, which is 53 per cent state-owned, and by Endesa, the large electrical utility, which is 67.5 per cent owned by the state.

Repsol, which is one of the most actively traded stocks on the Spanish stock market, floated 26 per cent of itself in 1989 and last summer completed a very successful convertible offering aimed at small domestic investors.

It reported virtually flat profits in the first half of last year, a six-month result that was considered "positive" when the weak trading of some of its larger rivals in the oil industry was taken into account.

Virgin may take US action as BA apology 'falls short'

By Paul Betts, Aerospace Correspondent

MR Richard Branson will decide next week whether his Virgin Atlantic Airways will take any further legal action in the US courts against British Airways.

Virgin said yesterday it had received "an extremely brief confidential note" from BA which fell short of the the "act of good faith" it was seeking from its larger UK rival to show it had changed its attitude.

Mr Branson, who yesterday met Mr John MacGregor, the UK transport secretary, is also seeking a commitment from the government to fair competition in the UK airline industry after the victory in the High Court last week in his "dirty tricks" libel battle against BA.

The ball was now in BA's court, a Virgin official said yesterday, explaining that Mr Branson would review next week all options about action, if any, he intended to take. Virgin's next move would depend on the response of BA. Its board is understood to have met to analyse the impact of the Virgin affair which is now under board investigation. A further meeting is expected this week.

Non-executive directors led by Sir Michael Angus, the president of the Confederation of British Industry, have expressed determination to establish the extent of the "dirty tricks" campaign against Virgin and to ensure nothing similar happens again.

Sir Colin Marshall, BA's chief executive and deputy chairman, has also said BA wanted to establish a less confrontational relationship with Virgin.

In his talks with Mr MacGregor yesterday, Mr Branson pressed for the establishment of a regulatory body to ensure fair competition in the allocation of take-off and landing slots at London's Heathrow airport.

Mr Branson has campaigned for more slots at Heathrow to expand Virgin's long-distance international services in competition with BA. He now hopes to use his victory in the courts to press his case.

Virgin officials said yesterday that the airline's expansion plans had been frozen for the past 18 months because it was unable to secure more peak-time slots at Heathrow. In turn, Virgin last year put on ice plans to sell a 20 per cent stake in the airline to fund its expansion. The company said these would only be resurrected if it could secure the slots to expand its services.

Charles Leadbeater on consolidation in the Japanese car industry

Co-drivers needed on rocky road

A sharp downturn in the Japanese car market over the past two years is forcing manufacturers there to contemplate far-reaching changes of strategy, which could lead to a consolidation of the industry.

Japanese car drivers have been the main beneficiaries of fierce competition within an industry of 11 producers. The competition has forced Japanese manufacturers to levels of efficiency and quality which are the envy of their competitors.

That may be about to change. Japanese manufacturers are increasingly looking to alliances to help reduce competition and cut costs.

Late last year Honda and Isuzu announced an agreement to sell each other's vehicles, after Isuzu had said it would withdraw from passenger car production.

Last week Nissan and Mazda confirmed they were discussing a plan to swap vehicles to cut development costs. Nissan is likely to suspend production of some light commercial vehicles and instead sell trucks supplied by Mazda. Mazda will streamline its range of vans by taking supplies from Nissan.

Toyota and Nissan, the industry's two largest producers, are considering jointly developing an electric car, which could have long-term implications for collaboration over product development.

These are the first responses to the downturn in domestic demand since 1990, which many industry executives believe could mark the start of a period of much slower growth in a maturing market.

The slowdown comes as most manufacturers are starting to pay for the heavy investment of the late 1980s. Japanese car producers have traditionally relied upon expanding sales rather than reducing costs to raise profits.

Mr Jonathon Dobson, an analyst at Jardine Fleming securities, estimates the Japanese market needs to grow by about 7 per cent for the producers to avoid their operating profit margins being eroded.

Few believe the market will sustain that growth.

The industry is dividing into two groups: those under pressure and those under heavy pressure.

A select few appear to be weathering the downturn in reasonable shape. Toyota, the leading producer with about 41 per cent of the domestic market, has large cash reserves and a reputation for low-cost volume production.

Mitsubishi Motors has increased its sales, partly thanks to its extensive but tailored product range which includes leisure vehicles such as the Pajero. Suzuki sold more cars last year than the year before because it concentrated on the mini-car segment of the market.

The others – Daihatsu, Isuzu, Mazda, Honda and Nissan – are struggling. Many in the industry believe that Daihatsu, the mini-carmaker, which has already retreated from the US market, may be incorporated into its parent Toyota.

Nissan and Mazda are facing acute difficulties. In the late 1980s Mazda seemed to represent the model new carmaker, with an impressive array of redesigned products such as the popular MX-5 sports car. It boasts 4,000 permutations of car. Now it is paying for its image.

Sumitomo Bank, which has parachuted a senior executive on to the company's board is breathing down Mazda's neck. The carmaker's pre-tax profits in the first half of the year to the end of March fell 73 per cent to Y3bn ($24.2m). The depreciation charge for investments such as its Hofu production plant will rise 30 per cent this year to Y88bn. Its sluggish sales are spread across five sales channels which share few costs. Its overseas operations are less developed than the other carmakers.

Mazda, which is a quarter owned by Ford, the US manufacturer, has one of the smallest production operations in North America which leaves it badly placed to benefit from an upturn in the US market. It recently cancelled plans for a separate luxury car sales network in the US. It is also the only Japanese carmaker to lack a production presence in Europe. Long running talks with Ford are yet to produce a deal but the company is understood to have exploratory talks with Citroën of France.

Nissan, which made a pre-tax loss of Y14.2bn in the six months to the end of last September, has been losing market share largely because its ageing model range is over extended.

Nissan sells 57 per cent fewer vehicles than Toyota, spread over 29 basic models, compared with Toyota's 26. The Cedric model comes with thousands of variations; the Laurel has 86 different steering wheels and 173 types of steering column. To maintain this range Nissan needs a huge and costly array of parts and suppliers.

All producers have slowly begun to cut costs.

Investment is being reined in and they have announced plans to standardise and reduce the numbers of parts they use by up to 45 per cent.

Agreements to share large components are spreading: Mazda is taking diesel engines from Isuzu. Wage costs are being restrained, partly by the spread of single shift working at many plants. As yet, however, no company has dared cut into the large white-collar overheads in offices and showrooms.

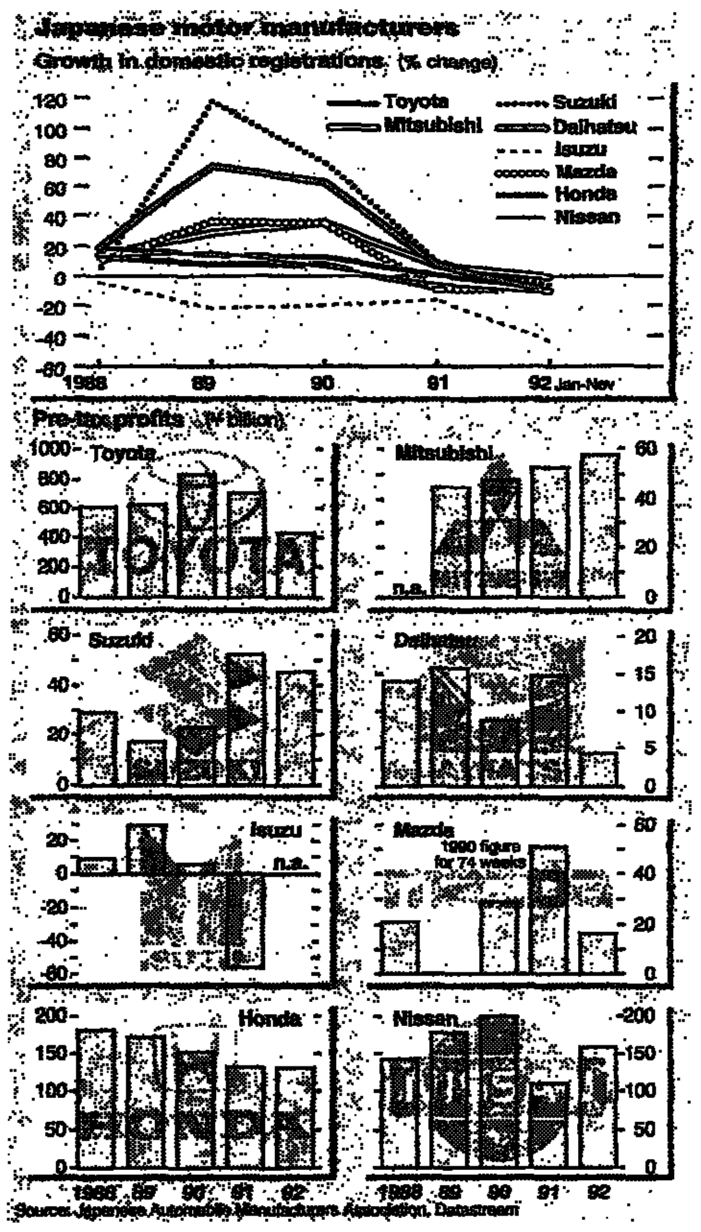
However this cost cutting is unlikely to boost profitability, given the bruising competition in a declining market. The obvious companion step is to cut the pace of competition.

Mr Yoshifumi Tsuji, Nissan president, says the agreement with Mazda will cut development costs but in the long run it could lead the two companies to reduce the number of competing models on offer.

The next logical step would be to overturn the conventional wisdom of the late 1980s, which was that product cycles would inevitably shorten as producers rushed out new models to maintain market share. Stretching the life of a model could save huge sums in research and development costs.

However until the market leader Toyota signals that it may take such a step, the other companies will be loath to go it alone for fear that their market share and profits will fall sharply.

Profits are under pressure in a slow growth market, opportunities for deep cost cutting are limited by labour practices and the costs of rapid product development are rising unabated. The laggards of the industry will have to start contemplating a more radical consolidation of the industry to allow them to keep up the pace of the leaders.



Eagle Star close to settling BBL litigation

By Richard Lapper in London

EAGLE STAR, the general insurance subsidiary of BAT Industries, is understood to be close to settling its long-running litigation with Banque Bruxelles Lambert, the Belgian bank.

News of a possible settlement in the case, which concerns commercial mortgage indemnity policies on property loans worth £220m ($341m), will hearten the company after last week's defeat in a legal battle with a Lloyd's syndicate.

Judge Diamond ruled in the Commercial Court last Thursday that Eagle Star must pay $40m in potential claims arising from a reinsurance policy purchased by syndicate 640 in 1973.

In the BBL case, which centres on a disputed valuation of six properties, it is believed that Eagle Star could pay around £100m to settle, although this amount could be reduced following reinsurance recoveries. BBL brought the case after Eagle Star failed to honour policies taken out on six loans in 1989.

The settlement move follows the adjournment of the case last Tuesday in the 11th week of the hearing. Eagle Star will seek to expand its case against the valuers of the six properties.

Losses on commercial and domestic mortgage indemnity policies have contributed to Eagle Star's recent trading difficulties. Pre-tax losses were £394m in 1991, and £66m in the first nine months of last year. BAT Industries pumped £450m into the company to boost its solvency.

Mr Michael Heath, Eagle Star executive director, said the Lloyd's ruling would have no "financial impact".

Trading in YSL halted amid stake sale speculation

By David Buchan in Paris

TRADING in the shares in Yves Saint Laurent, the fashion and cosmetics company, and Elf-Sanofi were suspended yesterday amid speculation that YSL might be selling a significant share stake to Elf-Sanofi.

Elf-Sanofi, the pharmaceuticals and beauty products arm of the state-owned Elf-Aquitaine oil group, promised a statement and a press conference early this afternoon to explain the new development.

Officials at YSL were unavailable yesterday, but their president, Mr Pierre Bergé, has made no secret of his desire to sell up to 15 per cent of the company.

Mr Bergé's openness last autumn about his willingness to sell a significant stake to a "true partner" had led to some softening of the company's share price, and criticism from YSL minority investors.

However, in the past four weeks, YSL's shares have gained nearly a third, and yesterday's suspension came after a sizeable rise last Friday.

Several months ago, Elf-Sanofi was canvassed as a possible buyer of the shares jointly-owned by Mr Saint Laurent and Mr Bergé, but was said to have been ruled out because it was unwilling to leave the company's two founders in management control.

Elf-Sanofi is essentially a pharmaceuticals company, but it has a perfume and beauty products business centred around its four marques of Roger & Gallet, Stendhal, Van Cleef & Arpels and Oscar de la Renta. The Elf-Aquitaine group is itself a possible candidate for privatisation if French conservatives win the March parliamentary election.

In the first nine months of last year, Elf-Sanofi recorded a 12.5 per cent rise in turnover to FFr15.8bn ($2.85bn), while YSL's predominantly luxury business has been much harder hit by the economic turndown with profits falling to just FFr2.6m in the first half of last year on sales of FFr1.39bn.

Custos slides SKr398m into red

By Christopher Brown-Humes in Stockholm

CUSTOS, the Swedish investment group, slid to a SKr398m ($55m) loss after tax in 1992, a sharp reverse from the SKr159m profit recorded a year earlier.

The group, which is majority-owned by Volvo, the motor vehicle group, and Skanska, Sweden's largest construction company, blamed the loss on high interest rates, turmoil in the capital markets, and a downturn in the Swedish stock market. The group cut its dividend to SKr1 from SKr7.

Custos said income fell to SKr408m from SKr457m, while interest costs climbed to SKr694m, compared with SKr585m. An injection into a subsidiary amounted to a further SKr400m.

The group noted that the adjusted value of its share portfolio fell by 23 per cent to SKr5.76bn, compared with a fall of just 1 per cent for the Stockholm stock market as measured by the Affärsvärlden general index.

At January 15, the company calculated its own net worth at SKr74 per share, or a total of SKr3.52bn.

Volvo and Skanska launched a bid for full control of Custos last October in what many thought would be the first step in the dissolution of cross-shareholding links between the two groups.

The offer was later abandoned after it was rebuffed by big shareholders and share prices began to recover.

However, a joint bid for a minority stake in a smaller investment company, Protorp, did proceed successfully after the original terms were improved.

Skanska and Volvo said yesterday they now owned 99.6 per cent of Protorp's shares, including those held by Euroc, Skanska's building materials affiliate. The offer was worth SKr200 per share, valuing the company at SKr2bn.

Sweden faced with mixed economic signals

Christopher Brown-Humes reports on the aftermath of the flotation of the krona

A FEW weeks ago, Sweden's decision to float the krona seemed to thrust a ray of light into the gloom enveloping the country's corporate sector. Since then, the mood has been tempered by the realisation that 1993 is still going to be an awful year for the Swedish economy, and that even in 1994 recovery may be a very slow business.

The signals are nothing if not mixed. And the contrasting announcements recently from two of Sweden's leading industrial groups are a vivid illustration of this.

The message from SKF, the world's leading roller bearing manufacturer, was that worsening conditions in key European markets would reduce demand for its products in 1993, forcing a further 2,000 in staff cuts.

In contrast, SCA, Sweden's second largest forestry group, headed by Mr Sverker Martin-Löff, upgraded its 1992 results forecast, thanks to currency factors and the benefits of cost-cutting.

If nothing else, these announcements emphasise the schizophrenia that characterises corporate Sweden at present. For most of the big international groups, which dominate the country's business sector, exports and profits should rise quite sharply this year thanks to the benefits of a devaluation that has so far seen the Swedish krona fall by around 20 per cent.

However, because demand is likely to be weak in many European countries, and particularly in Germany, Sweden's largest export market, the benefits will not be as great as they were in 1982, the last time Sweden devalued, when a strong international recovery was under way.

At the same time, a weaker currency will do nothing to alleviate the plight of the thousands of small and medium-sized businesses that depend on the domestic economy, which in 1993 is likely to be as depressed as it was last year.

Sweden is heading for its third consecutive year of negative GNP growth this year, with investment and private consumption set to fall further, and unemployment still heading upwards.

Thus 1993 will be a year when the performance of exporters such as the car, engineering and forestry companies, will stand out sharply from other sectors of business, like banking and construction.

Since devaluation, very few of Sweden's leading exporters are not competitive, because, in addition to the advantage of a weaker currency, they have also benefited from rationalisation, low wage increases, and cuts in employers' social security contributions. One estimate suggests that Swedish corporate competitiveness this year will improve by more than 15 per cent as a result.

For pharmaceutical companies like Astra and Kabi Pharmacia (part of Procordia), which were faring well even before the krona was floated, the devaluation provides an extra boost. For other groups, such as the car companies Volvo and Saab, the steel groups SSAB and Avesta Sheffield, and the forestry companies Stora, MoDo and SCA, it means a return to competitiveness and in many cases a return to profit after the difficulties of the past two years, because they are all big net exporters from Sweden.

Sverker Martin-Löff: upgraded results forecast of SCA

For a third category, such as SKF and the big white goods manufacturer Electrolux, the benefits are not so positive because they are not such big exporters from Sweden and demand in many key markets remains weak.

For a loss-making company like Volvo, prospects have been transformed by the combination of productivity improvements and currency movements. At its Torslanda car plant, it now takes 50 hours to produce a car compared with 75 hours last year. The company has estimated that a 13 per cent devaluation of the krona is worth some SKr2bn in the long term.

In the pulp and paper sector, there has been a similar transformation. Both MoDo and Stora can expect to be more than SKr1bn ($137m) a year better off following the devaluation if the krona stays at its current level.

These and other export-orientated companies have a big weighting on the Stockholm stock exchange, which is why Swedish share prices have risen by nearly 30 per cent since the krona floated.

It also explains why Alfred Berg Fondkommission, the Stockholm-based securities house, calculated last month that total profits for the top 35 Swedish companies could return to 1991 levels of SKr36bn in 1993 before advancing further to SKr63bn in 1994, basing its forecast on a 15 per cent eventual devaluation and a rate of SKr7.50 to the dollar.

The figures would represent a strong recovery from the 1992 level of SKr7.6bn, although even the 1994 figure only takes the companies back to where they were in 1989.

By contrast, the outlook for the domestic economy is bleak, not least because of the crisis in the banking sector.

Many commentators expect credit losses in the banking system to be higher in 1993 than in 1992, and no-one will have been encouraged by last month's announcement from SE Banken, Sweden's largest commercial bank, that it might need support from the state. Such difficulties could tighten the credit squeeze on the corporate sector considerably.

Meanwhile, construction activity is set to fall further next year, prompting an increasing number of calls for major infrastructure investment programmes to help get revival under way.

The best hope for the country's domestically-orientated companies is that interest rates will come down sharply in 1993. There has been some relaxation already, although the central bank is expected to keep a generally tight grip on monetary policy to hold down inflation.

The hope is that a combination of lower interest rates and higher exports will bring about discernible signs of recovery next year – in time to boost the re-election hopes of the coalition partners who form the minority government.

However, the longer term prospects for Sweden's recovery will depend on how quickly it can cut its rising budget deficit and reduce public expenditure as part of an overhaul that promotes an enterprise culture.

It will also depend on whether it has learned from the mistakes of the past. In public, at least, few industrialists were calling openly for a devaluation before the event, precisely because they feared the long-term consequences would be negative.

Mr Sten Westerberg, senior partner at Maizels Westerberg, says previous devaluations have proved wasted opportunities for Swedish industry, as eventual overheating and cost inflation have eroded the initial benefits.

The same mistakes will not necessarily be repeated this time, as inflation pressures are much lower in a depressed international business climate. But there are many who still fear that they will recur and that Sweden will once again find it is uncompetitive later in the decade.

Chicago seeks bigger share of forex market

By Laurie Morse in Chicago

THE Chicago Mercantile Exchange hopes to grab a bigger slice of the $1,000bn per day global foreign exchange market with plans to offer futures and options contracts that resemble over-the-counter spot currency transactions.

The new contracts, known as "rolling spot" contracts, will be four times the size of the CME's existing foreign currency products, a feature that should make them more palatable to the institutional traders who dominate foreign exchange trading.

The exchange plans first to offer rolling spot futures and options based on sterling with a contract size of 250,000, and then extend the concept to five other currencies on which it trades conventional futures.

The products have been submitted for regulatory review, and the CME hopes to launch them by June. The futures and options will expire quarterly and be quoted in terms identical to the interbank market.

Mr Jack Sandner, CME chairman, said: "The spot market place as it stands is needlessly cumbersome and inefficient. Each of these spot transactions and rolls exacts a tremendous toll on banks, in that they involve considerable transactional and operational expenses, as well as the potential for costly mistakes in actual payment flows. The Merc's clearing house will streamline this process by automatically adjusting for the roll, most likely in variation margin."

Philips' lighting division back in the black in North America

By Ronald van de Krol in Eindhoven

PHILIPS, the Dutch electronics group, said yesterday that its lighting division managed to make an operating profit in North America in 1992 for the first time since 1984

Mr Einar Kloster, president of Philips Lighting, also said that the company had "caught up" with the competition in new lighting products such as halogen lamps after falling behind by about two years at the beginning of the 1990s.

Mr Kloster declined to give further details of the lighting division's 1992 results ahead of the scheduled release of group results March 4. Philips has been involved in a reorganisation in the US after acquiring Westinghouse's light bulb factories in 1983.

He predicted that 1993 would prove to be a "very tough" year for lighting.

Philips' lighting business put in a strong performance in 1992, resuming its traditional role of "cash cow" after faltering briefly in 1990. In the first nine months of 1992, the division posted a 63 per cent increase in operating profit to Fl 602m ($325m) which helped to compensate for part of the downturn in the group's key consumer electronics business.

Mr Kloster described the world lighting market as stable, with Philips, General Electric of the US and Osram, a subsidiary of Siemens of Germany, holding roughly equal shares of the market for conventional light bulbs.

Mr Kloster said Philips must use the "window" opened by its competitors' efforts to digest recent acquisitions to concentrate on becoming a low-cost producer. The Dutch company's aim is to equip its European factories to produce at least 200m light bulbs a year.

It has already announced plans to close its light bulb factory in Dijon, France, and redistribute this capacity among the group's five other European plants.

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Five-fold rise in net earnings for NationsBank

By Alan Friedman in New York

NATIONSBANK, the large south-eastern US regional banking group formed in 1991 by the merger of C & S Sovran and NCNB, yesterday reported $1.15bn of net earnings for the whole of 1992, more than five times the previous year's level.

The bank's earnings had been held back in 1991 by heavy merger-related restructuring charges and provisions for bad and doubtful debts.

In the fourth quarter of 1992, NationsBank said net income was $234m, or 92 cents a share, even after a one-time $50m pre-tax provision caused by closures and merger-related consolidations. In the same quarter of 1991, it suffered a loss of $244m, or $1.08 a share.

NationsBank is the fourth-biggest bank in the US, with total assets of $118bn and more than 1,700 offices in nine states and the District of Columbia.

Mr Hugh McColl, chairman and chief executive, yesterday described its first full year of operations as "extraordinarily successful" and said the bank was ahead of schedule, since 300 of some 400 planned merger consolidation projects had already been completed.

He noted that the bank's level of non-performing assets had declined by 29 per cent in 1992, to $1.99bn. Bad debt provisions declined to $1.45bn from $1.6bn in 1991, while net write-offs fell to $868m in 1992, from $1.3bn the previous year.

Mr McColl said NationsBank was proceeding with expansion plans, including a deal with Dean Witter, the brokerage house partly-owned by Sears Roebuck, to form a joint venture retail securities company.

Total shareholders' equity rose by 20 per cent in 1992, to $7.8bn. The bank's ratio of capital to assets under the Tier 1 regulatory measure used in the US stood at a healthy 7.54 per cent at year-end.

Net interest income improved by 6 per cent last year, to $4.19bn, thanks to wider spreads being enjoyed by the entire US banking industry. Non-interest income increased by 10 per cent in 1992, to $3.97bn.

On Wall Street, NationsBank's share price declined by $½ to $51⅞ before the close.

Trial arbitration scheme for Canadian securities

By Bernard Simon

CANADIAN securities dealers and the Vancouver Stock Exchange are launching an experimental arbitration service to provide a quick and relatively inexpensive way of resolving disputes between stockbrokers and clients.

The service initially will be confined to claims of less than C$25,000 (US$19,500).

Members of the Investment Dealers' Association, including most of the firms trading on the VSE, will be required to submit to binding arbitration if this is requested by a disgruntled client. Neutral arbitrators will be provided by the British Columbia International Commercial Arbitration Centre.

The new scheme is an effort to defuse criticism that the self-regulatory efforts of securities dealers and stock exchanges have failed to provide adequate protection to investors or sufficiently harsh penalties on wrongdoers.

Under the rules, the arbitrator will be required to submit his findings within 60 days of a hearing. The arbitrator will also apportion costs, which are typically expected to total about C$1,200, excluding legal fees should the parties decide to be represented by lawyers.

The IDA said it would set up a national arbitration system if the British Columbia project proves successful.

Bank of Montreal increases dividend

By Bernard Simon in Toronto

BANK of Montreal, which posted the strongest earnings growth among Canada's six big banks last year, has raised its quarterly dividend and plans a 2-for-1 share split.

BMO announced at its annual meeting yesterday that the quarterly dividend would rise to 56 cents a share from 53 cents. The increased dividend will be paid to shareholders of record on February 8.

The share split will be achieved by declaring a 100 per cent stock dividend, to be paid on March 20 to shareholders of record on March 5.

BMO lifted net earnings by 7.5 per cent to C$640m (US$499m) in the fiscal year to October 31, compared with an average 50 per cent drop for the big six. It also posted the second-highest return on shareholders' equity, of 14 per cent.

Although its loan-loss provisions rose substantially last year, BMO has a smaller exposure than most of its competitors to Olympia & York and other troubled property groups.

Except for problems with a western Canadian coal mining company, the bank said in its latest annual report that "the rest of our portfolio withstood economic pressures very well."

BMO is gradually integrating its services with those of its wholly-owned US subsidiary, Chicago-based Harris Bankcorp. The two banks have merged their services to large corporate clients.

BMO's new trust-company subsidiary, officially launched last week, is expected to draw heavily on Harris's experience in fiduciary services.

● PWA's Canadian Airlines International is reinstating 14 of the 32 flight segments it had suspended from its schedule earlier this month in an effort to tackle overcapacity.

"We cannot maintain reduced capacity in the double digits when Air Canada responds with a 3 per cent reduction," said a Canadian Airlines official.

Strong final quarter lifts Primerica to $593m

By Patrick Harverson in New York

PRIMERICA, the diversified US financial services group, yesterday announced a 16 per cent increase in fourth-quarter profits to $153.3m, in spite of a decline in brokerage earnings.

The strong final quarter took Primerica's full-year 1992 profits to $593m, a 24 per cent improvement on the $478.8m earned in 1991.

A net gain of $68m from the sale of securities holdings and other assets, combined with lower debt costs and solid increases in profits at Primerica's consumer finance and insurance services divisions, helped to offset the drop in net income at the group's Smith Barney stockbroking unit.

Smith Barney reported a profit of $38.2m in the final quarter, down from $49.8m a year earlier.

The decline in earnings was attributed to lower trading revenues, the result of market conditions that were less favourable than in the fourth quarter of 1991, which was a particularly strong period for US equity markets.

Although profits tailed off in the final quarter, Smith Barney still produced record earnings of $170.1m for the full year, well up on the previous high of $152.4m reported in 1991.

Large increases in broking, investment banking and asset management revenues were behind the record performance.

Elsewhere in the Primerica group, earnings were higher than a year ago. Consumer finance services recorded net income of $51.3m in the fourth quarter, up 13 per cent on the same period a year earlier and once again the result of cost containment measures and lower loan loss provisions.

Full-year earnings at consumer finance services reached $193.5m, up from $175m in 1991.

Profits from insurance services in the fourth quarter rose 19 per cent to $46.8m, taking the division's annual profits to $187.3m, compared with $174.8m in 1991.

Sales of new life insurance remained flat, but mutual fund sales soared in the final three months of the year, boosting total sales for the year to $1.1bn, up 36 per cent on 1991.

Corporate expenses dropped sharply in the quarter, falling from $16.8m a year ago to $6.7m, thanks primarily to low US interest rates, which reduced the cost of Primerica's debt. Overall, expenses in 1992 fell 51 per cent to $48.2m.

Primerica also said yesterday it planned to take a charge of about $15m in the first quarter of this year to cover the costs of adopting new accounting procedures relating to post-retirement benefits.

Retailing revolution south of the border

Mexico's larger store chains are joining forces with US groups, writes **Damian Fraser**

SPEND a Saturday at Mexico City's Club Aurrera, the membership-only discount store half-owned by Wal-Mart, and you may never want to shop again. You will have to wait an hour to enter the car park, fight off customers to find a trolley, and spend another hour in the queue for a cashier.

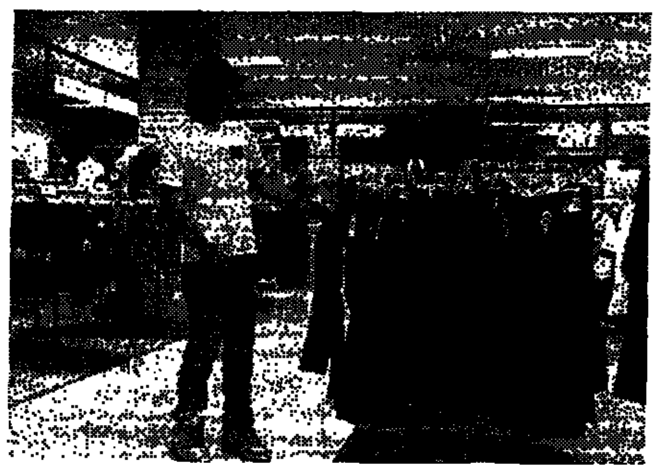
Inside will be thousands of businessmen stocking up on office supplies, merchants buying supplies for their own shops, and elegant housewives buying imported food and clothes.

Company executives proudly say the Polanco Club Aurrera sells more per square metre than the most successful Sam's-Club (Club Aurrera's twin) in the US.

Wal-Mart's outstanding success is the first sign of a revolution in Mexican retailing, spurred by competition in the sector, the opening of the economy to imports and the impending North American free trade agreement.

Small corner stores are losing business to the supermarkets. In turn, small supermarkets are being swallowed up by a handful of large Mexican chains. And the large chains are forming alliances with the giant US retailers.

Wal-Mart's partner is Cifra, Mexico's largest retailer: Price Club, the US warehouse club, has a similar venture with Comercial Mexicana, the third-largest Mexican retailer: Gigante, Mexico's second-largest retailer has formed a joint venture with Fleming, the largest US wholesaler.



Glyn Genin

Consumer choice: US stores gain access to an emerging market

Not to be outdone, Liverpool, Mexico's up-market retail chain, announced in December a joint venture with K mart. They intend to invest $500m to build 100 K mart stores in Mexico.

All these joint ventures have much the same purpose. As Mr Juan Carlos Mateos, planning director at Gigante, explains: "They have the know-how and we have the know-who."

The US retailers are gaining access to an emerging, consumer-starved market of 85m people, where profit margins are around 6 per cent on sales – around double those in the US. The Mexicans, in turn, have immediate access to US technology, distribution and buying-power.

The big winners are Mexican consumers, who can buy a vast array of (often imported) products at almost wholesale prices.

But many, especially small, undercapitalised Mexican suppliers will suffer. The big retailers, unlike the corner stores, buy in bulk or not at all: are quick to import if quality and price are better abroad; and expect goods to be packaged to their taste, with bar codes added, and to be delivered at the time they say.

Wal-Mart and Cifra have set the trend, opening their first Club Aurrera last March, with two more soon afterwards. They plan to launch another six before the end of this year.

In June, Cifra and Wal-Mart extended their joint venture, and formed two jointly-owned companies. The first is administered by Cifra, and consists of new Cifra supermarkets under existing Cifra brands: the second is administered by Wal-Mart, and comprises Wal-Mart supercentres, Club Aurrera, distribution centres and an import-export company.

Cifra says it will benefit from Wal-Mart's technology that should enable it to control stocks better and increase turnover. Longer term, it hopes Wal-Mart will help Cifra expand from its base in central Mexico by improving distribution channels, says a company official.

Wal-Mart has "the best distribution system in the US", says Ms Christine Aimer, an analyst at Baring Securities in Mexico City, and "will help Cifra become a national retailer."

Gigante has already opened a non-membership "price-impact" supermarket (called Supermart) with Fleming in the small town of San Juan del Rio, with another three expected to open by April. The company hopes to open about 10 Supermart stores a year, and to have 50 stores in operation in five years, with sales of $1bn.

The company is aiming at middle-size Mexican cities, where there are fewer supermarkets and profit margins are higher. Fleming is helping Gigante scan goods as they enter and leave the shop, thus helping control stocks, and advises on the lighting and layout of the stores, says Mr Wayne Epperson, head of the joint-venture.

But Mr Epperson is in little doubt that Fleming could not enter Mexico without help from Gigante. He, like Mr Mateos, hints one day the joint venture will be extended to include other Gigante stores.

Liverpool's joint venture with K mart is perhaps the most incongruous, since Liverpool is an upmarket department store chain but will be managing K mart-style food and general goods stores.

"The joint venture," says Mr Michel Marcos, Liverpool's director-general, of Liverpool "will enable us to expand into different markets."

Like all US and Mexican retailers, Liverpool is betting that Mexico's economic reforms will raise the purchasing power of the middle- and lower classes, making US-style mass-market discount stores profitable.

Significantly, Liverpool and Cifra are using their US alliances to promote Mexican goods in the US through jointly-owned export-import companies. Both companies know that unless Mexico's relish for consumer goods is matched by increased export revenues, the future for the retail sector is bleak.

INTERNATIONAL COMPANIES AND FINANCE

Brother Industries falls into the red

By Robert Thomson in Tokyo

BROTHER Industries, the Japanese office equipment and sewing machine maker, yesterday reported a full-year operating loss of Y1.27bn ($10.8m), the first since its listing 31 years ago and a sign of the extreme pressure on the country's machinery makers.

The company managed to register a pre-tax profit in the year to end-November of Y1.1bn, down 69 per cent, but said a 2.7 per cent fall in sales to Y160.8bn was responsible for the turnround from an operating profit of Y481m in the previous year.

Having announced a restructuring plan last year, under which the product line is to be trimmed by 30 per cent and 10 per cent of workers are to be transferred to new ventures, Brother is under pressure to make deeper cuts to bolster profits.

It said yesterday that executives' bonuses would be halted, but the real problem was the company's shrinking sales base and the increasing competition in the office equipment market, which had been targeted for sales growth.

Sales have now fallen for three consecutive years, and the ambition to rely increasingly on sales of office equipment and other industrial machinery has been undermined by the sharp fall in capital spending by Japanese companies.

Brother said domestic sales fell 8.5 per cent over the year, and while exports to the US increased, there was weaker demand from Europe.

Domestic demand for industrial sewing equipment has been hurt by the mounting pressure on local garment makers, whose sales have fallen because of the increasing quality of low-cost imports from China.

For the current year, sales are expected to decline by a further 2.3 per cent to Y157bn, while pre-tax profit is forecast to rise 64 per cent to Y1.8bn.

● Omron, a Japanese manufacturer of control components, is to embark on a three-year streamlining plan that includes reducing capital investment in plant and equipment and overall staffing, AP-DJ reports from Tokyo.

The plan will allow Omron to see group earnings rise even if sales growth is flat, the company said.

It added that the move would reduce staffing at group companies by 1,500, or 9.4 per cent. The Omron group employs about 16,000.

The company said Omron also planned to cut capital investment at group companies by 33 per cent to Y10bn a year from Y15bn annually.

Glaxo lifts investment in BioChem Pharma

GLAXO HOLDINGS, through its main Canadian subsidiary, has put a further C$30m (US$23.4m) into BioChem Pharma, a Montreal drug research group, by exercising an option on 3.9m BioChem shares, writes Robert Gibbens in Montreal.

Glaxo took the option nearly three years ago when it backed BioChem's 3TC anti-Aids drug with a commitment of C$125m for development.

The exercise price was C$7.80 a share, against BioChem's market price of around C$20 a share last Friday.

Glaxo now holds 17 per cent of BioChem and has invested a total of C$72m so far in equity and research money.

The agreement between both companies covers BioChem compounds for viral diseases.

Qantas to axe 1,835 in cost-cutting programme

By Kevin Brown in Sydney

QANTAS, the government-controlled Australian airline, plans to make 9 per cent of its workforce redundant over the next two years to help cut costs by A$158m (US$108.9m) a year.

Yesterday's announcement follows a review by Coopers and Lybrand, the accounting firm, which said the 1,835 redundancies would save A$95m a year. The remainder of the savings are to be achieved by increasing efficiency.

The review was set up after the merger of Qantas and Australian Airlines, the government-owned domestic airline, in September. The two airlines have already shed a total 5,000 staff in the past 18 months.

Mr John Ward, Qantas chief executive, said the savings were essential to increase efficiency in the run up to the flotation of the government's 75 per cent shareholding, expected later this year.

"The Qantas group can currently be counted among the top 10 airlines in the world. The simple truth is that we must continue to improve our productivity by 5 per cent per year to retain this position," he said.

Mr Ward said Qantas would shortly begin discussions on potential synergies with British Airways, which recently acquired a a 25 per cent stake in the airline. He said the discussions could lead to further job losses.

Qantas said it hoped the trade unions would co-operate with the redundancy programme, which will be delayed until early next month to give them time to respond. The airline hopes to achieve at least 60 per cent of the job losses through voluntary redundancy.

Qantas recorded a net profit of A$137m in 1991-92, but Australian suffered a loss of A$38.4m, mainly because of recession and fare-cutting following the deregulation of Australian domestic aviation in 1990.

Soeryadjayas sell 42% stake in Astra

By William Keeling in Jakarta

THE Soeryadjaya family yesterday sold over 100m shares in Astra International, which dominates Indonesia's vehicle sector, to a 19-member consortium in a deal worth at least Rp1,000bn ($494m).

In a flurry of trading yesterday, 102.5m Astra shares, 42 per cent of the company, passed through the market at Rp10,000 a share.

The sale valued the shares at about 30 times estimated 1993 earnings, compared to the market average of 15 times, and coincided with further bad news on vehicle sales. Astra yesterday revealed sales down 30 per cent year-on-year in the 12-months to last November to 101,309 units.

The Soeryadjaya family, founders of Astra and, until last month, its majority shareholders, still hold an estimated 12.4m shares. They may be forced, however, to sell this stake to repay depositors of their privately-owned, bankrupt Bank Summa, which was ordered into liquidation in December owing Rp1,600bn.

Details of yesterday's transactions have not been released but brokers believe the four main purchasers, taking 49m shares, were companies controlled by Mr Prajogo Pangestu, a timber tycoon; Mr Liem Sioe Liong, who runs the Salim Group; Mr Henry Pribadi, head of the Napan plastics and petrochemicals group; and Mr Murdaya Po, who runs Berca, a light industry and electronics group.

Brokers say Bank Danamon, a publicly-listed bank, has taken 5m shares, while Bank Exim and Bapindo, both state-owned banks, have bought 10m shares each. State-owned companies now own 27 per cent of Astra.

While yesterday's sale has resolved the company's ownership crisis, brokers say Astra still faces hard times.

The high sale price, "increases the likelihood the new owners will restructure the company, perhaps by selling-off assets," said one foreign broker. The sale was at a premium to Astra shares traded on the regular market which closed last week at Rp8,000 a share.

Bankers to Astra, which has loans and facilities from foreign banks of more than $900m, remained cautious about the ownership change, having earlier expressed reservations about some of the buyers. Those looking to Toyota, Astra's principal joint-venture partner, for a lead were disappointed.

The Soeryadjayas have placed 20m Astra shares in escrow while negotiating with Toyota for their sale. Toyota had expressed reluctance to buy the shares until the identity of other new shareholders was confirmed.

A Toyota official said yesterday the company remained undecided as to whether to buy the shares and is "still considering . . . whether, or how, to assist Astra International".

Rong Yiren to retire as Citic chairman

MR RONG YIREN, chairman of China's state-owned China International Trust and Investment Corp (Citic), is to retire, according to a senior official of the listed Hong Kong unit, Citic Pacific, Reuter reports from Hong Kong.

Mr Rong, known as China's "red capitalist", has built Citic into an internationally recognised conglomerate with operations and investments throughout China and in other countries.

Rumours have long circulated in Beijing that he would retire to take up a senior government position.

Highlands Gold slides 18.6%

By Kevin Brown

HIGHLANDS Gold, the Papua New Guinea mining company, yesterday blamed falling gold prices and lower sales for an 18.6 per cent cut in net profits to K21.9m ($22.5m) for the six months to December 13.

Highlands, 85 per cent owned by MIM Holdings, the Australian resources group, has a 30 per cent stake in the Porgera gold mine, which is the focus of a dispute with the PNG government.

Net profits soared 78 per cent to K51.86m in the year to end-June, following Porgera's first full year of production, in which output was significantly higher than expected.

However, confidence in the Porgera project was shaken in November when the PNG government said it wanted to increase its 10 per cent holding to 30 per cent.

Highlands and its two joint-venture partners, Placer Pacific and Renison Goldfields Consolidated, have resisted the government, and are holding protracted talks on the issue in Port Moresby.

Highlands also holds about 30 exploration licence areas in Papua New Guinea and it is negotiating with the Indonesian government to explore an area in northern Sumatra.

Sega upgrades profit forecast for current fiscal year

SEGA Enterprises, a leading Japanese video-game maker, has revised upwards its earnings forecasts for the fiscal year ending March 31, AP-DJ reports from Tokyo.

The company says it is seeing strong demand for its arcade-style video games worldwide and home-use units overseas.

Sega predicts full-year sales of Y341bn ($2.75bn), up 60 per cent, and pre-tax profits of Y55bn, up 64 per cent.

BCE to dispose of SHL shares

By Robert Gibbens in Montreal

BCE, Canada's biggest telecommunications group, is selling its 25.6 per cent interest in the fast-growing international systems integrator, SHL Systemhouse for C$83m (US$64.8m)

The 9.7m SHL shares are being sold via a secondary offer underwritten by Gordon Capital at C$8.55 each. The offer closes on February 10.

SHL was part of the Kinburn hi-tec and packaging group in the mid-1980s. BCE, then still on a diversification course, invested C$400m in SHL and Kinburn equity and loans. But Kinburn failed early in the recession and BCE wrote down its investment by C$224m in 1990.

Early in 1991, it planned to raise its 25 per cent stake up to 60 per cent and use a revamped SHL as the data processing centre for Bell Canada, its telephone unit. But the plan ran into opposition and BCE decided to sell. SHL is now expanding fast in the US and Europe under new management and is profitable again.

Bell Canada has formed Bell Sygma as a data processing and telecommunications systems management and service unit. Its own DP operations are being transferred to Sygma. BCE is concentrating on competing with Unitel, now 20 per cent owned by AT&T, in the long-distance market and in building its global telecom business.

Hawker Siddeley Canada chief quits

MR RONALD COLE has resigned as president, chief executive and a director of Hawker Siddeley Canada, AP-DJ reports.

The resignation, announced yesterday, was effective January 15. The company did not name a successor and gave no reason for the resignation.

Foster's Brewery wins control of Cascade

By Kevin Brown

FOSTER'S Brewing, the Australian beer group, yesterday announced a deal with Wilson Neill of New Zealand which will give it control of Tasmania's Cascade brewery.

Foster's said Carlton and United Breweries (CUB), its wholly-owned subsidiary, would establish a 50-50 partnership with Cascade Group, wholly-owned by Wilson Neill, to acquire the Cascade name and a brewery in Hobart.

The joint venture company will be controlled and operated by CUB.

Foster's said Wilson Neill would receive A$27m (US$18.6m) for the Cascade name and the brewery, but would retain the Cascade group's other assets, which include fruit juice manufacturing, a second brewery in Launceston, and a chain of public houses.

The deal ends nearly a year of speculation about the future of Cascade, which is one of Australia's most popular boutique beers.

However, the agreement is subject to the approval of the Trade Practices Commission, which last year blocked a proposed outright sale of Cascade to CUB for A$100m.

Barlow Rand plans stock distribution

SHAREHOLDERS in Barlow Rand, South Africa's leading industrial conglomerate, voted unanimously to distribute by dividend a portion of the company's 22.2m shares in Randgold & Exploration, AP-DJ reports from Johannesburg.

The distribution will be in the ratio of six ordinary shares in Randgold for every 100 Barlow Rand shares held at the close of business on January 29 1993 and will result in Barlow Rand's interest in Randgold being maintained at approximately 35 per cent.

Randgold shares will be listed on the Johannesburg Stock Exchange on February 1.

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales

Provisional Prices for Final Prices for Trading trading on 18.01.93 on 17.01.93

1/2 hour period ending	Pool purchase price £/MWh	Pool purchase price £/MWh	Pool selling price £/MWh
0030	[illegible]	[illegible]	19.82
0100	[illegible]	[illegible]	23.46
0130	[illegible]	[illegible]	27 27
0200	[illegible]	[illegible]	27.23
0230	[illegible]	[illegible]	23 40
0300	[illegible]	[illegible]	23.41
0330	[illegible]	[illegible]	20.46
0400	[illegible]	[illegible]	19.87
0430	[illegible]	[illegible]	18.72
0500	[illegible]	[illegible]	18 72
0530	[illegible]	[illegible]	19.30
0600	[illegible]	[illegible]	19.40
0630	[illegible]	[illegible]	19.80
0700	[illegible]	[illegible]	20.20
0730	[illegible]	[illegible]	23.90
0800	[illegible]	[illegible]	23.88
0830	[illegible]	[illegible]	27.51
0900	[illegible]	[illegible]	27 60
0930	[illegible]	[illegible]	26.52
1000	[illegible]	[illegible]	26.52
1030	[illegible]	[illegible]	24.10
1100	[illegible]	[illegible]	24.10
1130	[illegible]	[illegible]	24 10
1200	[illegible]	[illegible]	24.10
1230	[illegible]	[illegible]	24 10
1300	[illegible]	[illegible]	24.10
1330	[illegible]	[illegible]	24 11
1400	[illegible]	[illegible]	20.48
1430	[illegible]	[illegible]	20.46
1500	[illegible]	[illegible]	20.46
1530	[illegible]	[illegible]	20.65
1600	[illegible]	[illegible]	24.19
1630	[illegible]	[illegible]	30.55
1700	[illegible]	[illegible]	32.69
1730	[illegible]	[illegible]	32.08
1800	[illegible]	[illegible]	31.88
1830	[illegible]	[illegible]	29 87
1900	[illegible]	[illegible]	28.34
1930	[illegible]	[illegible]	28.23
2000	[illegible]	[illegible]	24.06
2030	[illegible]	[illegible]	23.82
2100	[illegible]	[illegible]	23.82
2130	[illegible]	[illegible]	23.83
2200	[illegible]	[illegible]	23.84
2230	[illegible]	[illegible]	20.03
2300	[illegible]	[illegible]	19.87
2330	[illegible]	[illegible]	18.72
2400	[illegible]	[illegible]	18.70

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. [illegible]

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FT GUIDE TO WORLD CURRENCIES

The table below gives the latest available rates of exchange (rounded) against four key currencies on Monday, January, 18, 1993. In some cases the rate is nominal. Market rates are the average of buying and selling rates except where they are shown to be otherwise. In some cases market rates have been calculated from those of foreign currencies to which they are tied.

COUNTRY		£ STG	US $	D-MARK	YEN (X 100)
Afghanistan	(Afghani)	99 25	64 0529	39 6603	50.9627
Albania	(Lek)	170.225	109.858	68.0219	87.4069
Algeria	(Dinar)	34.8190	22.4711	13.9136	17.8788
Andorra	(Fr Fr)	8.4725	5.4678	3.3856	4.3504
	(Sp Peseta)	177.45	114.521	70.909	91.1168
Angola	(Kwanza)	854.15	551.242	341.319	438.588
Antigua	(E Carr $)	4.1785	2.6966	1.6697	2.1455
Argentina	(Peso)	1 5443	0.9966	0.6171	0.7929
Aruba	(Florin)	2.7700	1.7876	1.1068	1,4223
Australia	(Aus $)	2.2885	1.4769	0.9144	1.175
Austria	(Schilling)	17.675	11.4069	7.0629	9.0757
Azores	(Port Escudo)	226.30	146.047	90.4295	116.2
Bahamas	(Bahama $)	1 5495	1	0.6191	0.7956
Bahrain	(Dinar)	0.5822	0.3757	0.2326	0.2989
Balearic Is	(Sp Peseta)	177.45	114.521	70.909	91.1168
Bangladesh	(Taka)	59.85	38.6253	23.916	30.7317
Barbados	(Barb $)	3.1125	2.0087	1.2437	1.5982
Belgium	(Belg Fr)	51.65	33.3333	20.6393	26.5211
Belize	(B $)	3.0950	1.9974	1 2367	1.5892
Benin	(CFA Fr)	423.625	273.395	169.281	217.522
Bermuda	(Bermudian $)	1.5495	1	0.6191	0.7956
Bhutan	(Ngultrum)	44.56	28.7576	17.8061	22.8806
Bolivia	(Boliviano)	6.36	4.1045	2.5414	3.2657
Botswana	(Pula)	3.5285	2.2771	1.4099	1.8118
Brazil	(Cruzeiro)	21775.25	14053.1	8701.4	11181.1
Brunei	(Brunei $)	2.5633	1.6542	1.0242	1.3162
Bulgaria	(Lev)	36.636	23.6437	14.6397	18.8118
Burkina Faso	(CFA Fr)	423.625	273.395	169.281	217.522
Burma	(Kyat)	9.8485	6.3559	3.9354	5.0569
Burundi	(Burundi Fr)	361.25	233.14	144.356	185.494
Cambodia	(Riel)	3095.00	1997.42	1236.76	1589.22
Cameroon	(CFA Fr)	423.625	273.395	169.281	217.522
Canada	(Canadian $)	1.9770	1 2758	0.79	1.0151
Canary Is	(Sp Peseta)	177.45	114.521	70.909	91.1168
Cp. Verde	(CV Escudo)	116.125	74.9435	46.4035	59.6277
Cayman Is	(CI $)	1.3155	0.8489	0.5256	0.6754
Cent.Afr. Rep	(CFA Fr)	423.625	273.395	169 281	217.522
Chad	(CFA Fr)	423.625	273.395	169.281	217.522
Chile	(Chilean Peso)	593.70	383.156	237.243	304.852
China	(Renminbi Yuan)	8.8560	5.7153	3.5388	4.5473
Colombia	(Col Peso)	1261.65	814.23	504.156	647.831
CIS ‡	(Rouble)	0 8771o	0.566	0.3504	0.4503
		685.10m	442.143	273.766	351.784
Comoros	(CFA Fr)	423.625	273.395	169.281	217.522
Congo (Brazz)	(CFA Fr)	423.625	273.395	169.281	217.522
Costa Rica	(Colon)	212.80	137.335	85.0349	109.268
Côte d'Ivoire	(CFA Fr)	423.625	273.395	169.281	217.522
Croatia	(Dinar)	1343 65	867.151	536.923	689.936
Cuba	(Cuban Peso)	1.1720	0.7563	0.4683	0.6017
Cyprus	(Cyprus £)	0.7470	0.482	0.2985	0.3835
Czech Rep	(Koruna)	44.784c	28.9022	17.8957	22.9956
		43.21t	27.8864	17.2667	22.1874
Denmark	(Danish Kroner)	9.6950	6.251	3.8741	4.9776
Djibouti Rep	(Djib Fr)	273.00	176.186	109.089	140.178
Dominica	(E Carr $)	4.1785	2.6966	1.6697	2.1455
Dominican Rep	(D Peso)	20.1175	12.9832	8.0389	10.3301
Ecuador	(Sucre)	2862.85o	1847.6	1144.0	1470.01
		2865.25u	1849.14	1144.96	1471.25
Egypt	(Egyptian £)	5.10	3.2913	2.0379	2.6187
El Salvador	(Colon)	13.7975	8.9046	5.5135	7.0846
Eq'tl Guinea	(CFA Fr)	423.625	273.395	169.281	217.522
Estonia	(Kroon)	19.8960	12.8402	7.9504	10.2161
Ethiopia	(Ethiopian Birr)	7.6455	4.9341	3.0551	3.9258
Falkland Is	(Falk £)	1.00	0.6453	0.3996	0.5134
Faroe Is	(Danish Kroner)	9.6950	6.251	3.8741	4.9776
Fiji Is	(Fiji $)	2.4520	1.5824	0.9798	1.259
Finland	(Markka)	8.3785	5.4072	3.348	4.3022
France	(Fr)	8.4725	5.4678	3.3856	4.3504
Fr. Cty/Africa	(CFA Fr)	423.625	273.395	169.281	217.522
Fr. Guiana	(Local Fr)	8.4725	5.4678	3.3856	4.3504
Fr. Pacific Is	(CFP Fr)	152.50	98.4188	60.939	78.3061
Gabon	(CFA Fr)	423.625	273.395	169.281	217.522
Gambia	(Dalasi)	13.5265	8.7295	5.4051	6.9455
Germany	(D-Mark)	2.5025	1.615	1	1.2849
Ghana	(Cedi)	800.25	516.457	319.78	410.911
Gibraltar	(Gib £)	1.00	0.6453	0.3996	0.5134
Greece	(Drachma)	335.40	216.457	134.026	172.221
Greenland	(Danish Krone)	9.6950	6.231	3.8581	4.9576
Grenada	(E Carr $)	4.1785	2.6966	1.6697	2.1455
Guadaloupe	(Local Fr)	8.4725	5.4678	3.3856	4.3504
Guam	(US $)	1.5495	1	0.6191	0.7956
Guatemala	(Quetzal)	8.1560	5.2636	3.2591	4.1879
Guinea	(Fr)	1257.00	811.229	502.298	645.443
Guinea-Bissau	(Peso)	7737.50	4993.55	3091.91	3973.04
Guyana	(Guyanese $)	194.985	125.837	77.916	100.121
Haiti	(Gourde)	18.57	11.9845	7.4205	9.5353
Honduras	(Lempira)	9.0530	5.8425	3.6175	4.6485
Hong Kong	(HK $)	11.9693	7.7246	4.7829	6.1459
Hungary	(Forint)	129.96	83.8722	51.932	66.7317
Iceland	(Icelandic Krona)	97.9800	63.2333	39.1528	50.3106
India	(Indian Rupee)	44.56	28.7576	17.8061	22.8806
Indonesia	(Rupiah)	3176.20	2049.82	1269.21	1630.91
Iran	(Rial)	2275.0o	1468.22	909.091	1168.16
		101.25o	65.3436	40.4595	51.9897
Iraq	(Iraqi Dinar)	0.5936	0.383	0.2372	0.3048
Irish Rep	(Punt)	0.9435	0.6089	0.377	0.4844
Israel	(Shekel)	4.2250	2.7266	1.6883	2.1694
Italy	(Lira)	2309.50	1490.48	922.877	1185.88
Jamaica	(Jamaican $)	36.9855	23.8693	14.7794	18.9912
Japan	(Yen)	194.75	125.686	77.8222	100
Jordan	(Jordanian Dinar)	1.0445	0.674	0.4173	0.5363
Kenya	(Kenya Shilling)	55.9885	36.1332	22.373	28.7489
Kiribati	(Australian $)	2.2885	1.4769	0.9144	1.175
Korea North	(Won)	3.3270	2.1471	1.3294	1.7083
Korea South	(Won)	1215.625	784.527	485.764	624.198
Kuwait	(Kuwaiti Dinar)	0.4725	0.3049	0.1888	0.2426
Laos	(New Kip)	1114.20	719.071	445.235	572.118
Lebanon	(Lebanese £)	2816.00	1817.36	1125.27	1445.96
Lesotho	(Maluti)	4.7580	3.0706	1.9012	2.4431
Liberia	(Liberian $)	1.5495	1	0.6191	0.7956
Libya	(Libyan Dinar)	0.4495	0.29	0.1796	0.2308
Liechtenstein	(Swiss Fr)	2.2950	1.4811	0.917	1.1784
Luxembourg	(Lux Fr)	51.65	33.3333	20.6393	26.5211
Macao	(Pataca)	12.37	7.9832	4.943	6.3517
Madagascar	(MG Fr)	2862.85	1847.6	1144	1470.01
Madeira	(Port Escudo)	226.30	146.047	90.4295	116.2
Malawi	(Kwacha)	6.6815	4.312	2.6699	3.4308
Malaysia	(Ringgit)	4.0123	2.5894	1.6033	2.0602
Maldive Is	(Rufiya)	18.5315	11.9596	7.4051	9.5155
Mali Rep	(CFA Fr)	423.625	273.395	169.281	217.522
Malta	(Maltese Lira)	0.6015	0.3882	0.2404	0.3088
Martinique	(Local Fr)	8.4725	5.4678	3.3856	4.3504
Mauritania	(Ouguiya)	164.055	105.875	65.5564	84.2362
Mauritius	(Maur Rupee)	26.5590	17.1404	10.6133	13.6354
Mexico	(Mexican Peso)	4.8128	3.106	1.9231	2.4712
Miquelon	(French Fr)	8.4725	5.4678	3.3856	4.3504
Monaco	(French Fr)	8.4725	5.4678	3.3856	4.3504
Mongolia	(Tugrik)	61.90	39.9483	24.7353	31.7843
Montserrat	(E Carr $)	4.1785	2.6966	1.6697	2.1455
Morocco	(Dirham)	13.9550	9.0061	5.5764	7.1655
Mozambique	(Metical)	4242.35	2737.88	1695.24	2178.36
Namibia	(S A Rand)	4.7580	3.0706	1.9012	2.4431
Nauru Is	(Australian $)	2.2885	1.4769	0.9144	1.175
Nepal	(Nepalese Rupee)	72.16	46.5699	28.8351	37.0526
Netherlands	(Guilder)	2.8175	1.8183	1.1258	1.4467
N'nd Antilles	(A/Guilder)	2.77	1.7876	1.1068	1.4223
New Zealand	(NZ $)	3.0055	1.9396	1.2009	1.5432
Nicaragua	(Gold Cordoba)	7.7375	4.9935	3.0919	3.973
Niger Rep	(CFA Fr)	423.625	273.395	169.281	217.522
Nigeria	(Naira)	31.20	20.1355	12.4675	16.0205
Norway	(Nor. Krone)	10.5675	6.8199	4.2227	5.4261
Oman	(Rial Omani)	0.5946	0.3837	0.2376	0.3053
Pakistan	(Pak. Rupee)	39.8020	25.6869	15.9048	20 4374
Panama	(Balboa)	1.5495	1	0.6191	0.7956
Papua New Guinea	(Kina)	1.54	0.9938	0.6153	0.7907
Paraguay	(Guarani)	2522.40	1627 88	1007.95	1295 2
Peru	(New Sol)	2.61	1.6844	1.0429	1.3401
Philippines	(Peso)	38.0685	24.5682	15.2121	19.5473
Pitcairn Is	(£ Sterling)	1.00	0.6453	0.3996	0.5134
	(NZ $)	3.0055	1.9396	1.2009	1.5432
Poland	(Zloty)	24506 0	15815.4	9792.61	12583.3
Portugal	(Escudo)	226.30	146.047	90.4295	116.2
Puerto Rico	(US $)	1.5495	1	0.6191	0 7956
Qatar	(Riyal)	5.6255	3.6305	2.2479	2 8885
Reunion Is. de la	(F/Fr)	8.4725	5 4678	3 3856	4 3504
Romania	(Leu)	727.61q	469.577	290.753	373.612
Rwanda	(Fr)	221.85	143.175	88 6513	113.915
St Christopher	(E Carr $)	4.1785	2.6966	1.6697	2.1455
St Helena	(£)	1.00	0.6453	0.3996	0 5134
St Lucia	(E Carr $)	4.1785	2.6966	1.6697	2.1455
St Pierre	(French Fr)	8.4725	5.4678	3.3856	4.3504
St Vincent	(E Carr $)	4.1785	2.6966	1.6697	2.1455
San Marino	(Italian Lira)	2309.50	1490.48	922.877	1185.88
Sao Tome	(Dobra)	371.40	239.69	148.412	190.706
Saudi Arabia	(Riyal)	5.8020	3.7444	2 3184	2.9792
Senegal	(CFA Fr)	423.625	273.395	169.281	217.522
Seychelles	(Rupee)	8.0575	5.2	3.2197	4.1373
Sierra Leone	(Leone)	796.95	514.327	318.462	409.217
Singapore	($)	2.5633	1.6542	1.0242	1.3162
Slovakia	(Koruna)	44.784c	28.9022	17.8957	22.9956
		43.21t	27.8864	17.2667	22.1874
Slovenia	(Tolar)	153.15	98 8383	61.1988	78.6392
Solomon Is	($)	4.5725	2.9509	1.8271	2.3478
Somali Rep	(Shilling)	4054.45	2616.62	1620.16	2081.87
South Africa	(Rand)	4.7580c	3.0706	1.9012	2.4431
		7.4225g	4.7902	2.966	3.8112
Spain	(Peseta)	177.45	114.521	70.909	91.1168
Spanish Ports in N Africa	(Sp Peseta)	177.45	114.521	70 909	91 1168
Sri Lanka	(Rupee)	71.4330	46.1006	28.5446	36.6793
Sudan Rep	(Dinar)	15.475	9.987	6.1838	7.946
Surinam	(Guilder)	2.7625	1.7828	1.1038	1.4184
Swaziland	(Lilangeni)	4.7580	3.0706	1.9012	2.4431
Sweden	(Krona)	11.2025	7.2297	4 4765	5.7522
Switzerland	(Fr)	2.2950	1.4811	0 917	1.1794
Syria	(£)	32.4975	20.9728	12.986	16.6867
Taiwan	($)	39.325	25.3791	15 7142	20.1925
Tanzania	(Shilling)	505.60	326.299	202.038	259.615
Thailand	(Baht)	39.5355	25.515	15.7984	20.3006
Togo Rep	(CFA Fr)	423.625	273.395	169 281	217.522
Tonga Is	(Pa Anga)	2.2885	1.4769	0.9144	1.175
Trinidad/Tobago	($)	6.5855	4.25	2.6315	3.3815
Tunisia	(Dinar)	1.5045	0.9709	0.6011	0 7725
Turkey	(Lira)	13421.90	8662.08	5363.4	6891.86
Turks & Caicos	(US $)	1.5495	1	0.6191	0 7956
Tuvalu	(Australian $)	2.2885	1.4769	0 9144	1.175
Uganda	(New Shilling)	1881.60	1214.33	751.888	966.162
U A E	(Dirham)	5.6815	3 6666	2.2703	2.9173
United Kingdom	(£)	1.00	0.6453	0.3996	0.5134
United States	(US $)	1.5495	1	0.6191	0.7956
Uruguay	(Peso)	5428.65	3503.48	2169.29	2787 5
Vanuatu	(Vatu)	186.80	120.555	74.6453	95 9178
Vatican	(Lira)	2309.50	1490.48	922.877	1185.88
Venezuela	(Bolivar)	124.65	80.4453	49.8101	64.0051
Vietnam	(Dong)	15552 35	10037	6214.73	7985.8
Virgin Is-British	(US $)	1.5495	1	0.6191	0.7956
Virgin Is-US	(US $)	1.5495	1	0.6191	0 7956
Western Samoa	(Tala)	3.9080	2.5221	1.5616	2.0066
Yemen (Rep of)	(Rial)	25.5340	16.4788	10 2033	13.1111
Yemen (Rep of)	(Dinar)	0.7505	0.4843	0.2999	0.3853
Yugoslavia	(New Dinar)	1160.60	749.016	463.776	595.944
Zaire Rep	(Zaire)	3975700.0	2565795	1588691	2041438
Zambia	(Kwacha)	533.90	344.563	213.347	274.146
Zimbabwe	($)	9.0840	5.8625	3.6299	4.6644

Special Drawing Rights January 15, 1993 United Kingdom £0.892876 United States $1.37369 Germany D Mark 2.23197 Japan YenN/A
European Currency Unit Rates January 18, 1993 United Kingdom £0.782361 United States $1.20873 Germany D Mark 1.96358 Japan Yen151.998

Abbreviations: (a) Free rate; (b) Banknote rate; (c) Commercial rate; (d) Controlled rate; (e) Essential imports; (f) Financial rate; (h) Exports; (i) Non commercial rate; (j) Business rate; (k) Buying rate; (l) Luxury goods; (m) Market rate; (n) Public transaction rate; (o) Official rate; (p) preferential rate; (q) convertible rate; (r) parallel rate; (s) Selling rate; (t) Tourist rate (u) Currencies fixed against the US Dollar (v) Floating rate; ‡ CIS applies to states in the Rouble Zone.
Some data supplied by Bank of America, Economics Department, London Trading Centre. Enquiries: 071 634 4360/5.
Monday, January 18, 1993

INTERNATIONAL CAPITAL MARKETS

Tap sales raise record Fl 9bn for 10-year Dutch paper

By Antonia Sharpe and Sara Webb in London and Emiko Terazono in Tokyo

EUROPE'S higher-yielding government bond markets showed strong gains as perceived tensions within the European exchange rate mechanism subsided, sparking hopes of cuts in short-term interest rates.

GOVERNMENT BONDS

Among the hard-core European bond markets, the Netherlands outperformed Germany which was held back by comments from Mr Hans Tietmeyer, the Bundesbank deputy president, that inflation in Germany is still too high.

■ THE Dutch bond market saw strong demand from domestic institutions for the new 7 per cent state bond due 2003, the first 10-year bond to be issued since last June. Towards the close of trading, the Finance Ministry said tap sales for the new bond raised a record Fl 8.9bn, the biggest amount raised in a single day since the ministry introduced tap sales in 1990 to issue debt.

Dealers initially estimated the ministry was seeking to raise a total of Fl 10bn, but some traders said they believed the amount could be increased given the strong demand. The price of the tap issue was raised five times, ending the day up 32 basis points at 99.55 to yield 7.06 per cent.

The strong demand for the bond resulted in a narrowing of the yield spread between Dutch and German paper by 3 basis points to around 3¼ basis points.

■ DANISH government bonds rallied yesterday, helped by the combination of favourable signs on the political front, an opinion poll predicting a "yes" vote in the forthcoming referendum on Maastricht and hopes of an easing in money market rates.

Dealers said a shortage of sellers also pushed up prices and some offers by the central bank throughout the day were not enough to satisfy demand. The 8 per cent government bond due 2003 closed at 97.00, up from 95¼ on Friday.

■ FUNDING worries continued to plague the UK government bond market, with long-dated gilts losing nearly half a point.

The Bank of England is due to announce today the details of the gilt auction scheduled for January 27.

Dealers are expecting the Bank to auction as much as £3bn of stock, with the 8½ per cent gilt due 2007 emerging as a likely candidate.

The Liffe gilt future contract fell from 99.26 at the opening to trade at 99.22 by late afternoon. In the cash market, short-dated gilts ended little changed while long-dated bonds fell, leading to a steepening of the yield curve. The 11¾ per cent gilt due 2003/07 fell from 119⅞ to 118¾ by late afternoon.

■ FRENCH government bonds continued their new year rally, thanks to a continued recovery in the franc. The 8½ per cent OAT due 2003 ended up 0.38 at 105.03 to yield 7.76 per cent while on the Matif, the Paris futures exchange, the March bond futures contract closed at 113.64, up 0.20 from late Friday.

■ JAPANESE government bond prices rallied to reach their highest levels in nearly five years, boosted by government purchases of 10-year and 20-year government bonds in the secondary market.

The yield on the No. 145 10-year benchmark bond fell to 4.345 per cent yesterday, dipping below 4.4 per cent for the first time since April 1988.

Until now, the government has bought bonds through private placements rather than in the secondary market.

The Bank of Japan bought Y100bn worth of bonds yesterday on behalf of the Ministry of Finance's trust fund bureau, which invests public funds such as postal savings in financial markets. An official at the trust fund bureau said the move was designed to diversify its investments.

The decision, however, comes at a time when a sharp rise in postal savings is causing some concern among policy makers. The postal savings system, which offers higher yields than the country's banks, saw an inflow of some Y12,300bn, fuelling complaints from the banks.

Meanwhile, a fall in long-term market rates is expected to prompt long-term credit banks to lower their prime lending rates to corporations, increasing the amount of funds available to companies.

The Ministry of Finance plans a Y100bn purchase of government bonds every month.

■ THE New York Treasury market was closed yesterday for the Martin Luther King holiday.

FT FIXED INTEREST INDICES

	Jan 18	Jan 15	Jan 14	Jan 13	Jan 12	Year ago	High*	Low*
Govt Secs (UK)	93.44	93.50	93.49	93.43	93.31	87.82	93.54	85.11
Fixed Interest	108.75	108.87	108.80	108.91	108.84	100.06	110.26	97.15

Basis 100: Government Securities 15/10/26 Fixed Interest 1928. * for 1992/93. Government Securities high since compilation: 127.40 (9/1/35), low 49.18 (3/1/75). Fixed Interest high since compilation: 110.26 (11/11/92), low 50.53 (3/1/75)

GILT EDGED ACTIVITY

Indices*	Jan 15	Jan 14	Jan 13	Jan 12	Jan 11
Gilt Edged Bargains	98.2	98.7	98.2	90.6	103.1
5-Day average	96.5	98.8	97.1	99.3	102.2

* SE activity indices rebased 1974

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Change	Yield	Week ago	Month ago
AUSTRALIA		10.000	10/02	107.3780	+0.602	8.85	8.97	8.94
BELGIUM		8.750	06/02	108.1000	+0.200	7.51	7.51	7.99
CANADA *		8.500	04/02	102.8500	+0.100	8.05	8.13	8.02
DENMARK		9.000	11/00	102.9250	+1.775	8.46	8.84	9.06
FRANCE	BTAN	8.500	03/97	105.5124	+0.136	7.05	7.81	8.26
	OAT	8.500	11/02	105.0100	+0.490	7.74	8.03	8.27
GERMANY		8.000	07/02	106.0800	+0.100	7.09	7.14	7.35
ITALY		12.000	05/02	94.8500	+0.555	13.421	13.56	13.85
JAPAN	No 119	4.800	06/99	102.8766	+0.411	4.23	4.38	4.54
	No 145	5.500	03/02	107.6051	+0.240	4.38	4.48	4.61
NETHERLANDS		8.250	09/02	107.8800	+0.510	7.10	7.15	7.42
SPAIN		10.300	06/02	99.2000	-0.025	12.07	12.46	12.80
UK GILTS		10.000	11/96	109-16	+2/32	7.13	7.27	7.31
		8.750	08/02	108-20	-7/32	8.42	8.43	8.40
		9.000	10/08	101-13	-15/32	8.82	8.80	8.67
US TREASURY *		6.375	08/02	98-15	+2/32	6.59	6.73	6.76
		7.625	11/22	103-07	-	7.35	7.48	7.45
ECU (French Govt)		8.500	03/02	101.7450	+0.545	8.22	8.42	8.81

London closing, *denotes New York morning session. Yields: Local market standard. † Gross annual yield (including withholding tax at 12.5 per cent payable by non-residents.) Prices: US, UK in 32nds, others in decimal. Technical Data/ATLAS Price Sources

BIS report points to shortening of debt maturity profiles

By Brian Bollen

RESTRICTIVE lending policies, including the non-renewal of maturing long-term loans, continued to characterise banks' credit relations with countries outside the BIS reporting area in the first half of 1992, according to a report released today by the Bank for International Settlements (BIS)*.

The report highlights a further shortening of debt maturity profiles, noting the banks' preference for short-term trade-related credits and the accumulation of interest arrears.

"The maturity profile of reporting banks' claims continued to shorten in most instances," said the BIS. The combination of a preference for short-term trade-related credits, additional interest arrears, debt sales and write-offs sent the share of short-term debt (defined as up to and including one year) to a new record high of nearly 48 per cent of total debt owed to banks in the first half of 1992.

Short-term claims on Portugal surged to a record 61 per cent of total international bank lending to Portugal, reflecting persistent short-term capital inflows after the country's entry into the European exchange rate mechanism.

A reduction in exposure to Norway was more than accounted for by the cut in short-term credit lines to banks in distress.

As a result, Norway's maturity profile lengthened and the domestic banking system's share of the country's external banking debt fell again to an all-time low of 33 per cent.

The former Soviet Union was the only one of the eastern European countries whose combined banking debt increased, but the $2.4bn rise reflected the accumulation of arrears and the drawdown of existing unused facilities. The deferral of principal repayments accentuated the shortening of the debt profile: short-term debt jumped by three percentage points to 20.7 per cent.

The increase in bank claims on Latin America was the biggest half-yearly rise for eight years, while at the same time a reduction in deposits outstanding helped to further the repatriation of flight capital.

The largest new borrowings in Latin America were by Brazil ($2.2bn), Argentina ($1.2bn) and Chile ($0.5bn), which all saw a shortening of their maturity profile.

Trade-related credits and, for Brazil and Argentina, the accumulation of arrears, were mainly responsible for the maturity shift.

China's short-term borrowing fell to 38.5 per cent from 42.5 per cent and its public sector's share of the debt fell by seven percentage points, to 37.2 per cent.

**Bank for International Settlements "The Maturity and Sectoral Distribution of International Bank Lending. First half 1992."*

Investors react positively to Portugal's Y75bn issue

By Brian Bollen

THE Republic of Portugal returned to the international capital markets yesterday for the first time since late 1988 with a successful Y75bn ($595m) five-year Eurobond.

Bankers said the positive reaction to the issue reflected the strength of investor interest and the careful preparation

INTERNATIONAL BONDS

undertaken by the lead managers, Daiwa Europe and IBJ International. Although the spread of 75 basis points over comparable Japanese government bonds was less generous than had been expected, it tightened immediately and ended the day at around 72/73 basis points.

The only reservation expressed was that the issue could become illiquid if too many bonds end up in the hands of banks looking to swap the assets into floating rate instruments.

The deal could mark the start of a steady flow of Portuguese borrowing, said bankers. At the end of last year, Portugal abolished the requirement for borrowers to place 40 per cent of any funds raised abroad in non-interest bearing deposits at the central bank. Portuguese borrowers are now free to borrow lower cost foreign funds.

The republic plans to raise between $2.5bn and $3bn in 1993 to re-establish its position in the international capital markets and pave the way for borrowing abroad by its corporate sector.

The treasury director, Mr Manuel Pinho, said last week that Portugal has a budgeted government deficit of around 4 per cent in the next fiscal year and foreign exchange reserves standing at $20bn, compared with $7.5bn three years ago. Portugal's early devaluation within the European exchange rate mechanism last year helped to avoid a substantial drain on its reserves, bankers said.

Bankers reported a good level of demand for the latest large Eurosterling transaction, PowerGen's £250m, 10-year, 8⅞ per cent issue through S. G. Warburg Securities.

Japanese investors like utilities and the 10-year maturity is under-utilised because of the lack of swap opportunities, they said.

Elsewhere, smaller D-Mark issues continued to emerge. DG Bank said the DM120m, seven-year, 7⅝ per cent Eurobond it arranged for the Amsterdam-based financing arm of the Spar supermarket chain was targetted mainly at domestic retail investors. Bayerische Vereinsbank added to the supply of reverse floating rate note issues, with a DM100m, 10-year note through its Curacao arm. The coupon is 8½ per cent for the first year, after which it will be set at 13.2 per cent minus six-month Libor.

IMI Bank Luxembourg re-opened the European Investment Bank's recent seven-year, 12¾ per cent Lira issue, increasing the amount to L300bn from L200bn. The only change in the terms was an increase in the issue price to reflect generally lower yields and swap spreads in the medium to long-term area since the original tranche appeared, said IMI.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees	Book runner
YEN						
Republic of Portugal	75bn	4.875	99.95	Feb.1998	25/10bp	Daiwa Europe/ IBJ Int.
D-MARKS						
Spar Int.Financiering(Ams.)	120	7.625	102	Feb.2000	2¼/1½%	DG Bank
BVOF(a)‡	100	(a)	102.2	Feb.2003	-	Bayerische Vereinsbank
FRENCH FRANCS						
Cetelem	1bn	8.25	100.635	Feb.1997	1⅞%	CCF
STERLING						
Powergen	250	8.875	99.05	Mar.2003	2/1.5%	SG Warburg Securities
ITALIAN LIRA						
European Investment Bank(b)	100bn	12.75	103.71	Feb.2000	1⅞/1¼%	IMI Bank Luxembourg
SWISS FRANCS						
Kelo Teito Electric Railway(c)♦	200	2	100	Jan.1997	-	UBS

Final terms and non-callable unless stated. ‡Private placement. ♦With equity warrants. ‡Floating rate note. a) Borrowers full name: Bayerische Vereinsbank Overseas Finance(Curacao). Coupon pays 8½% fixed annual in first year and 13.2% - 6-month Libor thereafter. b) Issue launched on 7/1/93 was increased to L300bn. c) Launched on 12/1/93. Denom.: SFr50,000+50 wrts. Exercise price: Y528, a 2.5% premium. Exchange rate: 84.93Y/SFr.

Daiwa Bank downgraded

By Robert Thomson in Tokyo

THE senior long-term rating of Daiwa Bank was downgraded yesterday from A1 to Aa3 by Moody's Investors Service, the US ratings agency, which referred to "uncertainty" over the leading Japanese commercial bank's asset quality.

The downgrading highlights continuing doubts about the health of Japanese banks, whose non-performing loans and those of their affiliates, have risen as sharply as property and stock prices have fallen. Moody's said the amount of Daiwa's lending to the domestic property market "remains significant in relation to its comparatively weak core earnings" and the bank could face further problems if asset prices continue to decline.

Moody's also downgraded the long-term rating of Fujitsu, the Japanese computer company, from A2 to Aa3, citing concern over its earnings potential given the softening of demand for mainframe computers.

MARKET STATISTICS

FT/ISMA INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Latest prices at 7:05 pm on January 18

U.S. DOLLAR STRAIGHTS	Issued	Bid	Offer	Chg. day	Yield
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

STRAIGHT BONDS: The yield is the yield to redemption of the bid-price, the amount issued is in millions of currency units. Chg. day=Change on day. FLOATING RATE NOTES: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. Spread=Margin above six-month offered rate (three-month §above mean rate) for US dollars. C.cpn=The current coupon. CONVERTIBLE BONDS: Denominated in dollars unless otherwise indicated. Chg. day=Change on day. Cnv. price=Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem=Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	26	41	13
Other Fixed Interest	5	7	3
Commercial, Industrial	378	233	813
Financial & Property	163	82	557
Oil & Gas	29	12	44
Plantations	0	0	9
Mines	20	41	80
Others	36	36	39
Totals	657	452	1,558

LONDON RECENT ISSUES

EQUITIES

Issue Price	Am'nt Paid up	Latest Renunc Date	1993 High	1993 Low	Stock	Closing Price	+ or -	Net Div	Times Cov'd	Gross Yield	P/E Ratio
§220	F.P.	-	278	243	Critchley Group	275		L6.1	2.2	3.0	19.5
-	F.P.	-	105	103	For. & Col. PEP Inv Tst	105		F3.38	-	4.3	-
90	F.P.	-	111	101	Hunters Armley	111		W3.38	2.2	4.1	14.8
51	F.P.	-	68	52	Intl. Food Machinery	57	-1	-	-	-	-
£10¼	F.P.	-	£10¼	£10¼	Mauritius Fund	£10¼		-	-	-	-
50	F.P.	-	57	52	OIS Intl.	56	+1	N1.9	2.8	4.5	10.4
-	F.P.	-	1½	1½	‡Prime People Warrants	1½		-	-	-	-

FIXED INTEREST STOCKS

Issue Price £	Amount Paid up	Latest Renunc Date	1993 High	1993 Low	Stock	Closing Price £	+ or -
100p	F.P.	-	116½p	115½p	Bristol Water 8¼pc Pf	115¼p	+¼
100p	F.P.	-	108½p	105¼p	Commercial Union 8¾pc Cm. Pf.	106¼p	+¼
100	F.P.	-	114¼	112	NFC 7¼pc Cv. Bd. 2007	112	-1¼

RIGHTS OFFERS

Issue Price p	Amount Paid up	Latest Renunc Date	1993 High	1993 Low	Stock	Closing Price p	+ or -
35	Nil	18/1	3pm	3pm	‡Hillclare	3pm	
5	Nil	11/2	1¼pm	¼pm	Melville	¼pm	-¼
25	P.P.	1/3	16	13	Property Trust	13	
2	Nil	11/2	2¼pm	¼pm	‡Regal Hotel	1pm	
50	Nil	15/2	17pm	12pm	Trio Holdings	13pm	-2
3	Nil	24/2	½pm	¼pm	West Trust	½pm	

a Annualised dividend. b Figures based on prospectus estimates. g Assumed dividend and yield. q Earnings based on preliminary figures. s Forecast or estimated annualised dividend rate, cover based on previous year's earnings. x Ex-dividend. F Dividend and yield based on prospectus or other official estimates for 1992-93. H Dividend and yield based on prospectus or other official estimates for 1993. L Estimated annualised dividend, cover and p/e based on latest annual earnings. N Dividend and yield based on prospectus or other official estimates for 1992. Q Gross. R Forecast annualised dividend, cover and p/e ratio based on prospectus or other official estimates. W Pro Forma figures. ‡ Issued by way of rights. † Introduction. § Placing price. †† Reintroduction. ‡ Unlisted securities market. ‡ Issued in connection with reorganisation, merger or takeover. pm Price at a premium.

TRADITIONAL OPTIONS

- First Dealings Jan. 11
- Last Dealings Jan. 29
- Last Declarations April 15
- For settlement April 26

3-month call rate indications are shown in Saturday editions.

Calls in AMEC, Arcon Res., Berisford Intl., British Thornton, Caird, Ferranti, Gardiner, Kunick, Ratners, Resort Hotels, Stakis, Tadpole Tech., Waterford Wedgwood and Whitegate Leisure. Put in CMW. Double in Harlstone.

FT-SE ACTUARIES INDICES

The FT-SE 100, FT-SE Mid 250 and FT-SE Actuaries 350 indices and the FT-SE Actuaries Industry Baskets are calculated by The International Stock Exchange of the United Kingdom and Republic of Ireland Limited.

The FT-Actuaries All-Share Index is calculated by The Financial Times Limited in conjunction with the Institute of Actuaries and the Faculty of Actuaries.

The FT-SE 100, FT-SE Mid 250 and FT-SE Actuaries 350 indices, the FT-SE Actuaries Industry Baskets and the FT-Actuaries All-Share Index are members of the FT-SE Actuaries Share Indices series which are calculated in accordance with a standard set of ground rules established by The Financial Times Limited and London Stock Exchange in conjunction with the Institute of Actuaries and the Faculty of Actuaries.

"FT-SE" and "Footsie" are joint trade marks and service marks of the London Stock Exchange and The Financial Times Limited.

LIFFE EQUITY OPTIONS

Option		Calls Feb	Calls May	Calls Aug	Puts Feb	Puts May	Puts Aug
BAA	750	39	62	72	11	24	35
Brit Aero (*186)	180	21	32	42	14	27	33
	200	13	25	32	26	40	44

Option		Calls Jan	Calls Apr	Calls Jul	Puts Jan	Puts Apr	Puts Jul
M & S (*318)	330	3	12	20	14	20	28
Sainsbury (*563)	550	18	37	48	5	20	29
	600	1	14	26	37	46	57
Shell Trans. (*525)	500	29	33	44	1½	12½	17
	550	1½	8	20	28	41	46
Storehouse (*213)	200	15	23	30	2	9	15
	220	2	13	20	12	19	25
Trafalgar (*86)	80	8	13	16	1½	4	8
	90	2½	8	11	4½	9	11
Utd. Biscuits (*356)	330	30	36	39	2	10	15
	360	6	15	24	10	25	29
Unilever (*1079)	1050	34	60	79	4½	28	38
	1100	6	31	53	26	55	64

Option		Calls Mar	Calls Jun	Calls Sep	Puts Mar	Puts Jun	Puts Sep
Glaxo	700	52	77	98	25	38	49
Abbey Nat. (*360)	360	20	26	40	18	26	31
	390	7½	14	22	40	44	48
Amstrad (*23)	20	5½	6	7	1	2	2½
	25	2	3½	5	3½	4½	4½
Barclays (*373)	360	32	40	45	22	30	36
	390	16	25	32	42	48	55
Blue Circle (*207)	200	24	28	38	14	24	29
	220	12	21	28	26	36	41
British Gas (*280)	280	11½	14½	21	10	19	22
	300	5	8	13	24	33	35
Dixons (*227)	220	20	30	33	12	17	22
	240	12	20	23	23	28	33
Eurotunnel (*393)	390	32	50	65	24	38	48
	420	19	36	50	48	55	63

FT-SE INDEX (*2763)

	2600	2650	2700	2750	2800	2850	2900	2950
CALLS								
Feb	179	136	97	64	40	23	11	6
Mar	198	157	123	93	68	47	31	20
Apr	223	186	151	121	93	73	52	38
May	237	202	171	143	118	98	77	62
Jun †	243	-	174	-	121	-	80	-
PUTS								
Feb	12	17	29	49	74	108	150	195
Mar	23	35	49	68	93	125	162	202
Apr	40	53	69	90	114	145	180	219
May	48	64	85	107	133	163	195	233
Jun †	55	-	86	-	131	-	192	-

January 18 Total Contracts 17,541
Calls 9,029 Puts 8,512
FT-SE Index Calls 2,351 Puts 2,408
Euro FT-SE Calls 349 Puts 277
*Underlying security price. † Long dated expiry mths
Premiums shown are based on closing offer prices

FT-ACTUARIES FIXED INTEREST INDICES

PRICE INDICES

		Mon Jan 18	Day's change %	Fri Jan 15	Accrued Interest	xd adj. 1993 to date
	British Government					
1	Up to 5 years (24)	127.49	+0.07	127.64	1.48	0.95
2	5-15 years (23)	145.50	-0.16	145.74	2.89	0.00
3	Over 15 years (8)	150.54	-0.37	151.11	2.44	0.00
4	Irredeemables (6)	169.82	-0.21	170.17	1.95	0.00
5	All stocks (61)	141.55	-0.11	141.80	2.35	0.35
	Index-Linked					
6	Up to 5 years (2)	183.41	+0.10	183.22	1.15	0.00
7	Over 5 years (11)	164.43	+0.11	164.57	0.40	0.62
8	All stocks (13)	165.78	+0.11	165.88	0.48	0.55
9	Debs & Loans (62)	123.84	-0.06	123.91	3.05	0.12

	AVERAGE GROSS REDEMPTION YIELDS		Mon Jan 18	Fri Jan 15	Year ago (approx.)
	British Government				
1	Low	5 years	7.03	7.02	8.79
2	Coupons	15 years	8.35	8.31	9.18
3	(0%-7¾%)	20 years	8.63	8.59	9.18
4	Medium	5 years	7.46	7.45	9.58
5	Coupons	15 years	8.82	8.77	9.26
6	(8%-10¾%)	20 years	9.03	8.98	9.20
7	High	5 years	7.68	7.68	9.81
8	Coupons	15 years	9.09	9.05	9.34
9	(11%-)	20 years	9.16	9.14	9.26
10	Irredeemables (Flat Yield)		8.97	8.95	9.40
	Index-Linked				
11	Inflation rate 5%	Up to 5yrs.	2.49	2.51	3.90
12	Inflation rate 5%	Over 5 yrs.	3.83	3.84	4.28
13	Inflation rate 10%	Up to 5 yrs.	1.60	1.63	3.21
14	Inflation rate 10%	Over 5 yrs.	3.64	3.64	4.09
15	Debs &	5 years	8.92	8.90	11.03
16	Loans	15 years	9.91	9.89	10.78
17		25 years	10.07	10.05	10.60

Substantial boost from favourable currency movements

Photo-Me up 21% to £10.5m

By Andrew Bolger

STERLING'S devaluation helped Photo-Me International, the world's largest photo-booth manufacturer and operator, increase pre-tax profits by 21 per cent to £10.5m in the six months to October 31.

Currency movements boosted profits by £1.3m, compared with a debit of £123,000 last time. Sales rose by 15 per cent to £72m.

The group translated its overseas earnings into sterling at the rate prevailing at the end of December.

Mr Dan David, chairman, said the worldwide recession showed signs of recovery and this, together with current operating returns, encouraged confidence in continued progress during the second half, subject to no significant exchange rate movements.

Mr David Miller, chief executive, said the best measure of the underlying performance was the 12 per cent growth in operating profits from £14.5m to £16.2m.

Operating profits grew less rapidly than turnover because about £8m of sales went to the group's new business, including "Fun" studios, which allow customers to be photographed in front of famous backdrops or with celebrities.

Another new business is the instant printing systems division, which has 2,000 business and invitation card machines worldwide, a quarter of them in the UK.

Potentially the most lucrative new business provides photos for identity cards, which are made in Hong Kong, Australia, New Zealand, Germany and the US. Although all the new businesses are profitable, they enjoy much lower profit margins than the core division.

Mr Miller said that although he continued to be excited by the potential of putting photos on products such as bank cards and driving licences, these results showed the group could grow steadily even without such breakthroughs – which were largely in the hands of banks and governments.

Since the Berlin Wall collapsed in 1989, the group has put 200 booths into eastern Europe, Russia and the Baltic states. Mr Miller said there was huge potential for expansion there, the main constraint being the group's need to get its returns in hard currency. The group has 14 booths in China, which produce revenue in Hong Kong dollars.

Mr David said: "World demand for real identity ensures that the group continues to expand and we continue to look for realistically priced international opportunities."

Earnings per share rose 15 per cent to 10.76p (9.37p). The interim dividend goes up from 1.3p to 1.4p.

Tony Andrews

David Miller: huge potential for expansion in eastern Europe

● COMMENT

These results were above expectations, and the shares were duly marked up 15p to 349p. Photo-Me emphasised that much of the profits rise was due to the weaker pound and it is assuming there will be a smaller currency benefit in the second half. The new businesses are only just profitable, but the photo-booths keep chugging away impressively. The real bonanza for these shares would come with greater use of photographs in bank cards, driving licences and identity cards. Forecast annual profits of £19.5m put the shares on a prospective multiple of 17.6, a slight premium. Some institutions have been put off by the high proportion of stock held by directors through nominees, but the register has become clearer and the shares are likely to attract an increasing following.

Lloyds Bank to pay £27m for AMC

By John Gapper, Banking Correspondent

LLOYDS Bank yesterday announced that it is to expand its share of the agricultural finance market to about 15 per cent by acquiring the Agricultural Mortgage Corporation from a consortium of high street banks.

Lloyds said it would pay £27m for AMC, which was set up by statute in 1928 to provide loans tied to first mortgages on agricultural, horticultural and forestry properties. AMC's net asset value in December was £57m.

Lloyds owns 13.3 per cent of AMC. The other shareholders are the Bank of England (27.4 per cent), National Westminster Bank (26 per cent), Barclays (17.3 per cent), Midland (13.3 per cent) and Royal Bank of Scotland (2.7 per cent).

AMC was deregulated in 1991 following an Act of Parliament in 1987. Although it made a profit of £7.8m in the year to last March and expects to make a similar amount this year, it has traditionally not sought large profitability.

Mr John Kaye, managing director, said the discounted price compared to asset value reflected the fact that AMC had a high ratio of loans to capital. AMC lendings amounted to £971m in September – about 8 per cent of the market.

Mr Kaye said AMC anticipated the bank injecting about £25m of capital into its new subsidiary. He said AMC had sought a single owner following deregulation.

Mr John Davies, Lloyds deputy chief executive, said the bank believed AMC had a "very sound" business that could be developed more vigorously under sole ownership.

Overseas holders to dispose of 45% Watts Blake stake

By Andrew Taylor, Construction Correspondent

LEBANESE, Belgian and German shareholders yesterday announced plans to sell a combined 45 per cent stake in Watts Blake Bearne. The move is expected to trigger a full scale bid for the world's largest ball clay producer.

Ceramics Holdings, controlled by the Lebanese Gargour family, Sibelco, a privately owned Belgian-based producer of silica sand for the glass industry and Quarzwerke, a private German producer of silica sand, are making the sale under a concert party agreement reached last April.

The companies said that under takeover rules: "the acquisition of the concert party members' holdings is likely to lead to an offer for the entire issued share capital of the company."

Mr John Pike, managing director of Watts Blake, said a sale to a single purchaser would make it very difficult for the company to defend itself from an unwelcome bidder.

"The board is gravely concerned about a number of issues that could arise from this proposed sale, including the implications for the company's employees and the local communities in which it operates," said Mr Pike.

The group based in Newton Abbot, Devon also owns extensive reserves of ball clay in the US and Germany. Almost two thirds of sales are used for the manufacture of sanitary ware and wall and floor tiles.

Its performance is dependent upon the health of the construction industry; pre-tax profits in 1991 fell by 27 per cent to £5.67m.

Profits in the first six months of last year, however, rose by 7 per cent to £3.74m helped by acquisitions.

Should a recommended purchaser offer less than 433p a share, Sibelco and Quarzwerke have the right to buy Ceramics' shares at the same price.

Watts Blake shares yesterday rose from 425p to 433p having touched 455p at one stage.

Unigate in Co-op milk deal

By Maggie Urry

UNIGATE, the dairy, food processing and distribution company, has agreed to purchase for £17m some of the milk businesses of the Co-operative Wholesale Society.

The businesses cover 348 milk rounds in London, the south-east and Cornwall together with a processing dairy in Penryn, Cornwall, with four depots.

The purchase will add about 1 percentage point to Unigate's share of the liquid milk market in England and Wales, taking it to just over 13 per cent. Assets involved are valued at about £6m and there are 217 employees.

The deal follows a previous in-fill acquisition by Unigate of Sussex Dairies last August.

Mr Gordon Summerfield, managing director in charge of milk related activities, said the acquisition was in line with Unigate's strategy of "buying dairy businesses which fit in with our existing operations".

He pointed out that said such acquisitions "allow for greater efficiency both in processing and distribution".

Carlsberg-Tetley starts trading

By Philip Rawstorne

CARLSBERG-TETLEY, the £510m joint venture formed by the merger of the UK brewing, distribution and wholesaling operations of Allied-Lyons and Carlsberg, began trading yesterday.

The merger, given the government go-ahead less than two months ago after a Monopolies and Mergers Commission inquiry, creates a third force in the UK brewing industry.

Carlsberg-Tetley, with an output of 6.2m barrels of beer a year from its six breweries, will have an 18 per cent share of production, rivalling Bass with 23 per cent and Courage with 20 per cent.

The company, with an annual turnover of £1.1bn and profits of about £100m, has a strong portfolio of brands, including Carlsberg Pilsner, Skol and Castlemaine lagers, each with sales of 1m barrels, and Tetley, the UK's best-selling ale.

Mr Don Marshall, Carlsberg-Tetley's managing director, said yesterday that the partnership would also benefit from the combination of distribution systems. Allied's strength in direct sales to the pub trade in the Midlands and northern England was complemented by Carlsberg's focus on wholesalers and other brewers, particularly in London and southern England.

The company is closing seven of its 32 depots with a loss of up to 100 jobs. No brewery closures are planned. Allied has recently closed its Romford plant and its smallest brewery at Alloa, which was considered in danger of closure, will now brew Carlsberg for outlets in Scotland.

Owners Abroad postpones EGM

Owners Abroad has postponed the extraordinary meeting at which its shareholders were to vote on a tie-up with Thomas Cook, the travel agency group, writes Richard Gourlay.

The EGM will now be held on March 22, a week after the closing date of the hostile bid from Airtours, the rival holiday company.

Mr David Crossland, Airtours chairman, welcomed the postponement of Owners Abroad's EGM.

"Now Owners shareholders can concentrate on what matters," he said. "Airtours' offer is significantly higher than the 100p a share at which Owners are planning their ill-conceived tie-up."

Cost controls help Aerospace Engineering rise to £109,000

By Matthew Curtin

AEROSPACE Engineering, the Swindon-based precision engineering group, yesterday reported a rise in pre-tax profits from £27,000 to £109,000 for the half year to October 31. Mr John Davis, chairman, attributed the improvement to shrewd cash management, cost control and benefits flowing from the disposal of the loss-making aero engine testing business in July.

The proceeds from that deal enabled the group – which turned in a £230,000 pre-tax loss in the last financial year – to reduce borrowings by £900,000. At October 31 these stood at £8.28m compared with £11m six months earlier.

However, reflecting both the first-half performance and current trading conditions, the interim dividend is halved to 0.25p. Earnings per share emerged at 0.19p (0.05p).

Turnover from the continuing aerospace engineering and electronics divisions, and the newly-formed power and control division, dipped to £13.2m (£13.4m) – overall sales for the comparable period of the previous year amounted to £15.1m.

Pressure on prices cut operating profits to £675,000 (£1.12m), but interest charges fell to £545,000 (£703,000).

Mr Davis said trading conditions were unlikely to improve by the year-end. However, the aerospace division would benefit from the airline industry's growing preference for "one-stop shop" engineering services and resilient demand for new aircraft.

In addition, the electronics division generated strong interest in its latest microwave circuitry, vital for the transmission of large amounts of data in satellite and mobile communication systems.

Bock succeeds in acquiring 19% of Lonrho

Mr Dieter Bock, the German financier, has become Lonrho's biggest shareholder with an 18.8 per cent equity stake following completion of the group's 198.67m share rights issue.

As expected, a little more than 29.1m shares were taken up as a result of the 3-for-10 issue at 85p per share, representing 14.6 per cent of the offering.

Included in the acceptances were 27.6m shares taken up by Laerstate, Mr Bock's private company. These shares were offset against Laerstate's underwriting commitment for 100m shares.

Mr Bock had already acquired 43.5m shares from Mr Tiny Rowland, Lonrho's chief executive, giving him a total stake of 143.5m shares.

Mr Bock paid 115p a share, a substantial premium to the current share price, for half of Mr Rowland's 15 per cent stake. He has the option to buy the other half after three years, which would take his total holding to 24.8 per cent.

Carlton and LWT set up joint venture

By Raymond Snoddy

Carlton Television and London Weekend Television have set up a separate television sales company to attract continental European advertising.

The joint venture will try to persuade overseas advertisers, particularly in the food sector, that with a combined reach of 11m people, London is one of the most important markets in Europe.

The new venture, London Television European Sales, said that the London area accounts for 47 per cent of UK mineral water consumption, 44 per cent of UK charge cards, 37 per cent of UK businessmen and 25 per cent of the UK retail outlet total of 30,000.

The first television advertising campaign to be booked by the new venture, for the German airline Lufthansa, begins on January 31.

Lower dealing costs lift market in equity futures

By Joel Kibazo

REDUCED dealing costs and increased asset allocation activity led to a growth in trading of equity futures in 1992, according to a new guide published yesterday.

The guide, from UBS Phillips & Drew, is the third in what has become an annual event. It says increased liquidity has been generated by the growing use of futures to cover cash positions. Also, more unit trusts have been dealing in futures to cover positions before investing in the underlying equity market.

However, it acknowledges that, "The recent emphasis has focused on asset allocation switches."

The guide lists the leading contracts traded on the world's main stock markets with a detailed breakdown of turnover and contract size.

DIVIDENDS ANNOUNCED

	Current payment	Date of payment	Corres - ponding dividend	Total for year	Total last year
Aberdeen Trust ......fin	0.5	Mar 10	1.5	1.5	2.5
Aerospace Eng ......int	0.25	Apr 2	0.5	-	1
French Prop Tst ......int	1	Mar 1	nil	-	nil
Peel ......int	1	Apr 6	1	-	3
Photo-Me Intl ......int	1.4	Apr 8	1.3	-	4.4
Soundtracs § ......fin	1.35	Apr 16	1.35	2.2	2.2

Dividends shown pence per share net except where otherwise stated. §USM stock.

Measuring up for a water fight

Bronwen Maddox reports on the argument over Ofwat's price review

"FUNDAMENTALLY arbitrary and flawed" was one of the accusations hurled yesterday by the water industry at proposals from Ofwat, its regulator.

The latest skirmish is part of the build-up to the crucial Periodic Review in 1994, when Ofwat will reassess the basis for water bills for the first time since the 1989 water privatisation, and set future price rises. It reveals the extent of the differences yet to be resolved between the two sides over the basis for setting water prices.

The attack is contained in the industry's 50-page response to a consultation paper from Ofwat in November on the correct definition of the companies' capital value, a notoriously slippery figure.

Their assets include miles of Victorian sewers and pre-war water mains, whose value is highly debatable, as well as state-of-the-art treatment plants, part of a huge industry-wide spending programme which could cost some £45bn by the year 2000.

A dry and highly-technical issue, the definition is nevertheless central to the review: unlike the regulators of the other privatised utilities, Ofwat is legally obliged to allow companies to earn a "reasonable" rate of return on their capital when setting price rises.

The approach favoured by Mr Byatt, Ofwat's director general, in his November paper is to take the stock market value at flotation in December 1989 as the value of assets at that point – £6.1bn at the end of the first day's trading.

To bring it up to date, he proposes adding on the capital spending since then. This hybrid system – market value for the old assets, and current value for the ones bought after 1989 – gives a capital figure of some £12bn to £13bn.

Given the pre-tax profits of £1.5bn made by the industry in the year to March 1992, it suggests – in rough terms – a pre-tax return on capital of some 11 per cent.

Ofwat has argued that the attraction of this approach is its simplicity. It also gives a relatively high figure for return on capital, for which the water customer should be grateful, as it would allow Ofwat to be tough at the periodic review.

Mr Byatt has pointed out – in a good illustration of the difficulty of the definition – that if, instead, he took the cost of building the assets at today's prices, which several companies suggested, that could lead to a capital figure as high as £100bn. If he allowed the companies to earn the same return on old assets as on new ones, the industry would make "too much profit" and the customer would suffer through higher prices.

The water companies have attacked Mr Byatt's arguments on two main points. Their paper "questions Ofwat's preference for [stock] market-based valuations". Instead, it wants Ofwat to use the government's own "Indicative Values", calculated in 1989 on the basis of projected cashflows.

The water industry argues that this is the only measure of value which treats the 10 large water and sewerage companies which are floated on the stock market on the same basis as the 33 water-only companies which remain in private hands.

Its paper argues too that Ofwat's version is guilty of "circularity": it defines the value of the assets by the stock market value, but the value that the market puts on the companies is partly based on its view of how much profit Mr Byatt will let the assets earn.

City analysts said yesterday that they thought Ofwat would have to consider the arguments seriously. However, they pointed out that as some of the indicative values were higher than the stock market values at flotation, this could help the water companies' arguments for a higher capital figure.

The water companies also attacked Ofwat's proposal to give back to customers some of the price rises permitted during years of heavy spending to allow companies to keep interest charges comfortably covered by profits – a necessary "cushion" if banks are to agree to lend them money. Ofwat's argument is that this is an "advancement" of revenue and should be returned to the customer once the spending programme has diminished.

The companies have called this "neither rational nor fair", arguing that it "could not be implemented in a way which is clear and comprehensible either to customers or the capital markets".

Their complaint is that there is no obvious "benchmark" level of prices by which to measure the "advancement" of revenue. The proposal could be "self-defeating", they warn, because immediately Ofwat selected a benchmark, bankers would use it to calculate the "cushion" for their interest payments instead of using the actual revenue.

This will not be the last tussle between the two sides. Within a few weeks Ofwat will publish its final consultation paper before the review – on how the UK's supply of water can be increased and who should pay for it.

Water companies' finance directors believe an answer to these and other buried conflicts – including a long-standing disagreement on the cost of capital – will eventually be hammered out in horse trading during the review.

But yesterday's report shows that differences between the companies and their regulator are still considerable and that resolution of the differences is unlikely to be easy or quick.

See Lex

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Gestetner sale talks abandoned

By Richard Gourlay

GESTETNER Holdings, the office and photographic equipment distributor, yesterday said the sale of its Vivitar and Hanimex camera distribution businesses had fallen through.

Concord Camera Corporation of the US and Gestetner jointly called off the talks after Concord failed to put together the necessary financing.

Mr Andrew Adams, Gestetner projects manager, said talks between the two groups were continuing and he was still hopeful an agreement could be reached.

The sale would have further focused Gestetner on its core office equipment markets after what has been an unhappy diversification into the photographic supply business.

When the proposed sale was announced last September, Mr Basil Sellers, Gestetner chairman, said one reason the group was withdrawing was that there was no follow-on market in camera distribution, as there was in office supplies.

The deal would have involved the sale of the camera business apart from Hanimex Australia. In the year to October, the camera business reported trading profits of £1.1m on sales of £81.4m.

The collapse of talks with Concord is unlikely to be seen as particularly bad news for Gestetner's finances. The $40m (£26.3m) cash and 1.3m Concord shares which it would have received in payment would have had little impact on a balance sheet that appears to be relatively lowly geared for a distribution company.

But equally, the failed sale will do little to dispel the bid speculation that has surrounded Gestetner since last year.

Since the Australian group, Chiltern Capital – then called AFP Investments – took management control of Gestetner in 1986, the revitalised company has never really fulfilled its early promise.

Hanimex was one the group's first diversifications in 1989 after two successful years in which cost were cut and its manufacturing culture was replaced successfully with a more market-driven approach.

Two years ago Ricoh, the Japanese photocopier group, bought a 24 per cent stake in Gestetner from AFP in a deal that valued Gestetner at about £500m.

At yesterday's close of 151p, the group is worth barely half that.

Tay shares fall 10% on profits warning

By Andrew Taylor, Construction Correspondent

THE SHARE price of Tay Homes tumbled by 10 per cent yesterday to 151p after the company became the latest housebuilder to issue a profits warning.

Mr Trevor Spencer, chairman, said that the collapse of the housing market last autumn meant that group pre-tax profit for the year to June 30 was unlikely to be as high as had been expected.

Analysts yesterday cut their forecasts from about £6m to between £4m and £4.5m. This compares with pre-tax profits of £6.14m last year and £8.26m in 1990-91.

Mr Spencer said that the group, like other housebuilders, had been hit by the devaluation of sterling last autumn which had dented the confidence of would-be buyers.

Tay had been forced to reduce prices in order to maintain unit sales, which were expected to be similar to the 1,100 achieved in 1991-92. Average prices had fallen from £68,000 to £63,000 during the past 12 months.

Sales, however, had improved sharply during the first three weeks of this year. "Visitor levels have been high and sales good. We can only hope that this is the beginning of the long-awaited housing market recovery," he said.

Net borrowings at the end of December were £20.5m, representing 68 per cent of shareholders' funds.

GrandMet foresees end to dispute with Brent Walker

By Andrew Jack

GRAND METROPOLITAN, the food, drinks and retailing group, expects to settle by this summer its dispute over a £50m payment from Brent Walker for the sale of William Hill, the betting shops chain, a senior company executive said yesterday.

Mr David Nash, GrandMet's finance director, said the dispute over deferred payments totalling more than £50m and £10m in interest from Brent Walker should be settled by "mid year" with the help of an adjudicating accountant.

Details of the negotiations were disclosed for the first time in GrandMet's 1992 annual report and accounts, which were circulated yesterday.

The report presented the company's results in line with the latest rules issued by the Accounting Standards Board.

This had the effect of increasing pre-tax profits from £902m to £925m in the year to September 30 1992.

The restated 1991 results were more than halved from £950m to £448m, principally as a result of FRS 3, the new standard on the profit and loss account which virtually eliminates extraordinary items.

Most of the restated figures had already been shown in a note to the company's preliminary results released in September, and had little effect on the share price, which closed unchanged on the day at 420p.

The accounts also show that emoluments excluding pension contributions to Sir Allen Sheppard, chairman and chief executive, rose from £713,391 to £770,682.

The value of intangible assets – such as brands – increased on the balance sheet by £60m, offset by a reduction of £32m caused by exchange adjustments.

There were post-employment provisions of £113m and performance guarantees and indemnities to third parties totalling £183m.

The company said it supported "in spirit and letter" the recommendations of the Cadbury committee on corporate governance, and complied with 16 of its 19 guidelines.

Peel rises 8% despite weak property market

By Matthew Curtin

PEEL HOLDINGS, the Rochdale-based property group, reported an 8 per cent improvement in pre-tax profits from £1.64m to £1.77m in the half-year to September 30.

Mr John Whittaker, chairman, said demand for property was weak and rental income declined. Demand for retail warehousing had, however, remained strong.

Turnover rose to £32.2m (£29.8m). Property sales amounted to £26.6m at about book value. Net rental income was £21.1m which more than covered interest charges of £19.7m.

Borrowings stood at £349m, the bulk of which originated in the group's £304m takeover of London Shop in 1988. The interim dividend is held at 1p.

Mr Peter Scott, managing director, said Peel increased its stake in the Manchester Ship Canal to 75.6 per cent – the second increase since the group acquired a 68 per cent interest in May 1991 – and would like to acquire the outstanding share capital, saving the group the costs and complications of maintaining two separately listed companies.

He said the group had failed to agree a fair value for MSC in past talks with its minority shareholders. Valuing the company was complicated by its outstanding planning application for a 1m sq ft shopping centre at Dumplington, Manchester, likely to be resolved soon.

Reorganisation at Ocean to involve 500 job losses

By Peter Pearse

SHARES IN Ocean Group rose 15p to 265p yesterday on the announcement by the freight, environmental and marine services company of changes to reorganise its management and overhead structure.

Mr Nicholas Barber, chairman, said: "We, like most other companies at the moment, are suffering the pain of recession. We're not looking for green shoots and aren't expecting any for a while."

The reorganisation will involve nearly 500 redundancies and is expected to incur one-off costs of about £8m, which will be taken in the accounts for the year to December 31 1992.

It follows July's relocation of the head office from central London to Bracknell and the stripping out of the divisional level of the management structure.

Mr Barber said that yesterday's move would not have much benefit in the 1993 year, but that in the full 1994 period, he expected the savings would more than balance the £8m exceptional costs incurred.

Although some operating locations will be closed in the cost-cutting exercise, some "90 or more per cent" of the it concerns management level redundancies.

The head offices in Bracknell and Liverpool will lose about 80 jobs between them and the balance will go from the regional offices.

Lazard to manage Crown funds

By Norma Cohen, Investments Correspondent

CROWN FINANCIAL Services said yesterday that Lazard Investors would become the fund manager for its £680m in assets because it had decided that it was not able to offer customers the quality of performance they required.

The move comes at a time of rising pressure for consolidation in the fund management industry as firms struggle to build sufficient "critical mass" to offer services profitably. Charges for existing clients are based on a percentage of funds under management and managers must either pare costs or increase the size of their portfolio in order to improve profitability.

"Our performance had been hurting a bit, but with a portfolio of only £700m, we just couldn't afford the quality of fund management necessary," said Mr Herb Belles, managing director at Crown, the UK life, pensions and unit trust subsidiary of Crown Life of Canada.

Crown had been having difficulty retaining existing clients and attracting new ones because it could not offer a sufficiently attractive investment track record or access to investments in overseas markets, he said.

The funds under management are too small to allow the company to hire the kind of expertise needed to both expand and improve the quality of service.

"We want to provide our sales team with an A-1 product," Mr Belles said. "We just didn't have the critical mass." Life insurers need to have at least £1bn to £2bn under management in order to offer high-quality investment services, he said. Lazard Investors already manages £3.2bn for a range of clients including international pension funds.

NEWS DIGEST

British Thornton up sharply

WITH SALES sharply higher at £3.92m, against £1.11m, pre-tax profits of British Thornton Holdings, the furniture making and contract packaging group, moved ahead from £20,000 to £301,000 in the six months to October 31.

However, serious problems arose in the educational and scientific furniture businesses and significant trading losses were incurred. A number of senior management changes have been made and steps taken to increase efficiency and reduce overhead costs.

The result this time was struck after a £171,000 exceptional charge being compensation to a former director for loss of office and related costs.

Earnings per share were 0.2p (0.09p). A special interim dividend of 0.25p (nil) has already been declared.

Aberdeen Trust cuts final dividend

Aberdeen Trust, the investment and unit trust management group, raised pre-tax profits to £1.76m in the year to September 30, against £1.23m struck after an exceptional charge of £1.36m.

Despite net attributable profits ahead at £1.28m (£851,000) and earnings per share at 1.53p (1.45p), the final dividend is cut from 1.5p to 0.5p making a total of 1.5p (2.5p).

The company said it believed that dividends had previously been maintained at an unsustainable level and now wished to adopt a long-term policy capable of producing growth.

It believed that a period of consolidation was appropriate to enable it to develop investment activities and to maximise operating profits. A rationalisation programme had been commenced which would significantly reduce overheads.

Next 5.75% bond cancellation

Of the offer by Next, the high street retailer, to cancel up to £1.5m of 5.75 per cent convertible bonds 2003, some £942,520 bonds have been tendered and cancelled. A balance of £553,283 remains outstanding.

Under the tender offer 471,567 Next new ordinary shares of 10p will be allotted, credited as fully paid. They will rank pari passu with existing ordinary shares.

Aberdeen Petroleum maintains opposition

The board of Aberdeen Petroleum yesterday cast doubt on the value of an unwelcome merger proposal from US-quoted Bellwether Exploration.

In a letter to shareholders, Aberdeen urged investors not to support the suggested swap of 3.75 Aberdeen shares for each of Nasdaq-quoted Bellwether's.

"There is minimal marketability in the shares of Bellwether," the board said. "In these circumstances, it is not possible to form a view as to the value of the consideration proposed by Bellwether."

First half fall hits Real Time shares

Shares of Real Time Control fell 15p to 76p yesterday on news that profits for the half year to September 30 had fallen from £507,000 to £258,000 at the pre-tax level.

Turnover was virtually static at £3.1m. The USM-quoted group develops and services computer systems. Earnings per share were 2.5p (4.9p).

The directors said the results in the UK epos market reflected the high cost of obtaining business in the recessionary period.

49% take up of Albrighton offer

The open offer of 44.25m new ordinary shares by Albrighton, the USM-quoted provider of products to the construction industry, was taken up as to 21.73m shares, or 49 per cent.

The remaining shares will be taken up by institutional and other investors with whom they had already been conditionally placed. The offer was on a 7-for-1 basis at 12p per share to raise £4.96m.

Jupiter European net assets decrease

Jupiter European Investment Trust reported a fall in net assets per share to 66.2p at the end of October 1992, against 79.9p a year earlier.

After-tax revenue, however, increased from £50,931 to £82,490, representing earnings per share of 0.69p (0.85p). An interim dividend of 0.5p has already been paid for the current year.

Soundtracs falls to £350,000

Profits of Soundtracs, the professional audio equipment specialist, fell from £545,699 to £350,385 pre-tax for the 12 months to November 6. Directors blamed the setback on pressure on margins.

Turnover improved by 6.5 per cent to £4.11m. About 85 per cent of production is exported to North America, the Far East and Europe.

Earnings emerged at 2.45p (3.79p). A final dividend of 1.35p makes a same-again 2.2p total.

Along with its results Soundtracs announced its first acquisition since joining the USM in 1986. It is paying £300,000 cash for Sussex-based Spendor Audio Systems.

For the year to April 30 1992 Spendor returned pre-tax profits of £28,000 and had net assets of £413,000.

Barlo improves to I£390,000

Barlo Group, enlarged via the acquisition last July of IRG, the plastic processing company, returned pre-tax profits of I£390,000 (£410,000), for the six months ended September 30.

That compared with I£319,000 last time which included exceptional income of I£268,000. Higher interest charges of I£225,000 (I£49,000) resulted from the IRG purchase.

Turnover totalled I£15.1m (I£6.14m) with the radiator division ahead by 34 per cent at I£8.22m. Earnings per share worked through at 0.46p (0.44p).

Abtrust Scotland net asset value lower

Net asset value of Abtrust Scotland Investment Company fell from 32.2p to 29.2p per share over the six months to November 30. A year earlier the figure stood at 30.3p.

Net revenue for the six months to end-November was down at £8,592 (£60,429) for earnings per share of 0.03p (0.18p). The comparative period included a one-off dividend of £52,500.

Johnson Cleaners in £2.9m purchase

Johnson Group Cleaners has acquired Imperial and Queen Laundries, the Staffordshire-based workwear rental business, for £2.9m, in a move which will help to increase its growing share of the UK textile rental market.

Pre-tax profits of Imperial and Queen in 1991 were £249,000 on turnover of £2.7m. It services a wide variety of companies in the Potteries.

Inchcape lifts stake in Revasa

By Andrew Bolger

INCHCAPE, the motor and businesses services group, has increased its stake in Revasa, the Italian insurance broker, through Bain Clarkson, its wholly owned insurance broking subsidiary.

Bain Clarkson will pay a maximum of £1.7m, subject to performance, to lift its stake in Revasa from 10 per cent to 49 per cent.

Bain Clarkson bought its initial 10 per cent shareholding in January last year.

The Milan-based broker, currently ranked 10th in Italy in revenue terms, is involved mainly in the property, casualty and construction sectors.

Mr Simon Arnold, chairman of Bain Clarkson, said: "Italy is an important market for us. This increased shareholding in Revasa will give us a stronger position in the country, moving us forward in our strategy to gain prominence in the major European markets through shareholding arrangements such as this."

Bain Clarkson also has operations in Greece, Ireland, Sweden, Switzerland and France, where it recently acquired a 25 per cent stake in CECAR, the country's third largest broker.

Contrary to a weekend press report, Bain Clarkson's results are understood to be holding up well, in spite of difficulties in the reinsurance market.

COMMODITIES AND AGRICULTURE

CIS says aluminium output to fall by more than 10%

By Kenneth Gooding, Mining Correspondent

ALUMINIUM OUTPUT in the Commonwealth of Independent States this year is expected to fall by more than 10 per cent from the 1992 level, according to CIS industry officials. They also want aluminium exports to go no higher than 1m tonnes – more than 20 per cent below last year's estimated total.

The revised CIS forecasts were given to a team from VAW Aluminium of Germany, the first delegation from the western industry to visit their Russian counterparts this year.

Mr Karl Wobbe, VAW's management board member responsible for aluminium production, said yesterday that, in spite of the extreme pressures on the CIS industry, which was very short of raw materials and capital, the production target was realistic.

"The CIS industry did not collapse last year and we don't expect disaster will overtake it in 1993. So CIS exports will continue at a high level this year and so will the problems they create for the rest of the world aluminium industry. Prices will not go up from present low levels unless western smelters make more production cuts," he said.

Mr Wobbe said industry representatives estimate that CIS primary aluminium output in 1992 reached 3.1m tonnes, not far below estimated capacity of 3.5m to 3.6m tonnes and slightly higher than production forecasts made at an industry gathering in St Petersburg in September. For a variety of reasons, however, they expected 1993 production to fall to 2.675m tonnes.

CIS officials said that licences for the export of 735,000 tonnes of aluminium were issued last year and another 150,000 tonnes was officially exported under joint-venture arrangements, making a total of 885,000 tonnes. However, they estimated that there was at least another 400,000 tonnes of uncontrolled and unlicensed exports, including some directly from smelters.

Mr Wobbe said Mr Gregory Maslov, head of the state-controlled Aluminium Committee, set up in November and which seemed likely to take prime responsibility for the CIS industry, wanted to cut exports by 400,000 tonnes this year to leave more metal available for the domestic market.

However, the smelters wanted to export 200,000 tonnes on their own account. Even so, the committee still hoped to keep exports at no more than 1m tonnes.

In order to keep a tighter hold on exports, Russia increased aluminium export duties from 50 Ecu (£39.25) a tonne at the end of 1992 to 130 Ecu for primary aluminium and to 205 Ecu for bartered metal. To discourage exports of primary metal disguised as "scrap", the duty on aluminium scrap had been lifted to 460 Ecu a tonne.

Officials estimated that proceeds from nearly half the aluminium exported by the CIS last year – about 600,000 tonnes – were used to buy alumina (aluminium oxide) and other raw materials from the west so the CIS smelters could continue producing metal.

"The aluminium committee wants stronger control of exports, but whether it will succeed is another matter," said Mr Wobbe. "They [the CIS industry] are begining to understand something about the free market and that you cannot continue for ever producing at a loss."

● Alusuisse-Lonza said yesterday that overcapacity in the world primary aluminium industry and low prices were forcing it to close its Steg smelter in the Canton of Valais, Reuter reports from Zurich. Last year the smelter produced 48,000 tonnes of metal compared with its capacity of 50,000 tonnes. About 100 jobs will be lost when production ends in the autumn next year.

Reuter adds from Madrid that Spain's state-owned aluminium producer, Inespal, has told unions it wants to cut 34,000 tonnes a year from the output of its La Coruna smelter, which produced 79,000 tonnes in 1992, and 39,000 tonnes from the Aviles smelter production. Aviles 1992 output was 84,000 tonnes.

Coking coal cut of $2 a tonne in new contract deal

By Garard McLoskey

THE JAPANESE steel mills have struck their first coking coal contracts for 1993, bringing a $2 a tonne cut for top quality Australian hard coking coals.

The settlement, to be announced in Tokyo and Sydney later today, will result in a new f.o.b. price of $49.30 and set the benchmark for Australian and Canadian sales throughout Asia. The $2 cut, rather than the actual price level itself, will also be required from the mills' US suppliers.

The cut reflects the oversupply of hard coking coal throughout the world and the poor state of the steel mills' finances. It was made possible by the recent slide in the Australian dollar from US75 cents a year ago to 68 cents. The US producers, faced with increased costs and no currency benefit, will be hard pushed to match such a price cut.

Although the price levels in Europe are different for the same coals, the settlement will probably see the start of European price negotiations in earnest.

So far the only settlements appear to have been between the Polish state coal trader, Weglokoks, and its European customers – last Friday British Steel is believed to have agreed to a cut of about $2 for its Polish supplies.

The Australian/Japanese settlement is also expected to open the way to a fairly swift agreement with Australia's steam coal suppliers.

Steam coal price movements are normally linked with those of semi-soft coking coals, which have been cut by $2.50. There are hopes among suppliers that the cut will be closer to $2 but a recent accord between three South African suppliers and Japanese power companies on a reduction of $2.45 suggests these hopes will not be fulfilled.

The new South African price of $30.59 a tonne, while lower than 1992's contract price levels, is well above the spot market throughout Europe and Asia with business being struck at below $25 f.o.b. in most markets.

The Greek cement company Heracles has just struck an agreement for spot South African coal for about $23.50 a tonne.

Similarly, the 1992 Australian price of $38.90 a tonne, is more than $10 higher than spot settlements into Asian and European markets.

Chinese connection helps locals to win Russian copper contract

By Leyla Boulton in Moscow

THE RUSSIAN-dominated Udokan Mining Company has won a tender to develop the country's biggest copper deposit but Australia's BHP, the only other contender in the race, has expressed a desire to co-operate with the winner.

UMC is 45 per cent owned by a Hong Kong businessman, Mr Eddie Wong, with the remaining shares held by Russia's Arter group and local geological and privatisation authorities of eastern Siberia's Chita region.

Mr Wong's Chinese connections are said to have helped secure in advance a 25-year contract for UMC to sell 200,000 tonnes of concentrate a year to China, out of expected annual production of 360,000 tonnes. His stake is held through a Cyprus-registered vehicle called Chita Minerals Company.

Despite a valiant effort by BHP to put together a proposal with far less time than its Russian competitor, UMC had been been expected to win for some time. This was not just because of its promise to start mining in 1997 but more importantly because it was backed by a group of Russian plants which proposed to supply most of the equipment for building the mine and accompanying infrastructure.

A BHP representative was yesterday quoted in a Russian newspaper as saying his company was interested in playing a role in the project. An adviser to UMC said it was too early to comment on what this might involve.

Fluor Daniel, the US firm which put together Chile's giant La Escondida copper mining project, will be the project manager. Allen & Co, the private New York investment bank, will be raising finance for the $1bn-plus project.

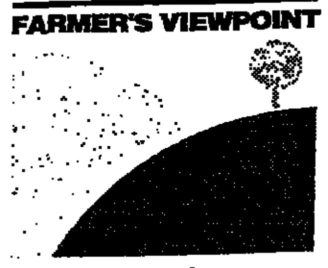
Despite the fact that six leading western mining companies dropped out of the race since it was launched last summer, Goldman Sachs, the US investment bank which has been advising the government on attracting foreign investment, argues its organisation of a world-class tender gave Russian authorities a better deal than had there been no competition at all.

It appears at least to have succeeded in avoiding the shambles of a pioneering Russian tender for Sakhalin oil reserves, which was badly hit by political squabbling a year ago but ended with some of the losers joining the original victors. Since then, a deal with an Australian mining company for the development of the Sukhoi Log gold deposit, awarded without a tender, has become the subject of a fierce dispute over whether and on what terms it should be allowed to go ahead.

Pulling together for UK agriculture

Why are British consumers buying so much foreign-produced food?

FARMER'S VIEWPOINT



By David Richardson

BETTER management; better budgeting and better marketing; "these three, but the greatest of these is better marketing". Such have been the texts on which sermons to British farmers have been preached for generations. But the truth is that most British farmers are far more interested in better production.

History has conditioned us to derive satisfaction from growing bigger and better crops and from persuading cows to give more milk and hens to lay more eggs. The UK has always been in deficit for food; always relied on imports, first from the empire and more recently also from the European Community. Indeed at the start of the Second World War Britain produced only 30 per cent of its food at home.

Today domestic production represents about 55 per cent of total food requirements – 70 per cent of what could be produced in the British climate. The improvement is a direct result of government encouragement, over many years, to expand home production and help the balance of trade.

But there is still a substantial food trade gap – the difference in value between what is imported and exported, which Food From Britain, the government-sponsored promotional organisation, has put at more than £5.5bn. Of that well over half could be produced at home. In recent years, as the urge to grow more has been modified, the food and drink trade gap has grown to record the highest ration of imports of any major sector. And an increasing proportion of those imports have been coming from other northern European EC countries. In other words they mainly consist of commodities produced under similar climatic conditions to those of the UK and could just as easily have been produced here.

The question is why are British consumers buying foreign food?

One of the main reasons is undoubtedly the comparative lack of marketing expertise and organisation in the UK agricultural sector.

Farmers in competing countries, like Holland, Denmark and France, which have relied on agricultural exports for many years, were long ago forced to co-operate to bulk up commodities for overseas sales. Many of these have since merged to become powerful marketing organisations able to supply UK retail chains with large quantities of produce to agreed specifications.

As British supermarkets grew to control more than two thirds of all food purchases and their buyers became more demanding, individual growers and the UK's much smaller co-operatives increasingly found themselves losing sales to the continentals. It was not that the foreign food was necessary better nor that it it always cheaper, but it could be supplied in sufficient bulk to be spread, in identical form, around hundreds of stores. Hence the growing penetration by EC competitors of the British food sector and widespread concern at the trend, which has extended all the way to the prime minister's office.

Last week the great and the good of the British farming, food processing and retailing industries gathered at 10 Downing Street for the second time in 15 months to discuss ways of improving opportunities for British food suppliers. Under the chairmanship of the prime minister they determined, among other things, to collaborate to try to source more food from UK producers; to focus Food From Britain's activities on exporting and to assist farmers and growers to become more market orientated.

The president of the National Farmers' Union, Mr David Naish, accepted Mr John Major's invitation to chair a small group to follow up the seminar and to monitor progress.

Farmers will wish him and the top level initiative every success. Moreover, at least one supermarket group, Safeway, claims to have switched £41m worth of purchases from overseas to the UK since the first Downing Street meeting in November 1991. Safeway further states that 82 per cent of the food it retails is now sourced in Britain and that there is potential for a further £150m worth within three years.

The other retail giants are a little more coy about their achievements and plans, but it seems probable that they may be moving in the same direction.

They are not philanthropists, however. The pound's devaluation last autumn has mad it much more expensive for them to import, so, for the time being at least, commercial interest coincides with patriotism.

Meanwhile the fundamental marketing deficiencies of British agriculture remain; the lack of organisations big enough to apply real leverage against the retail giants and a piecemeal approach to promotion and quality assurance.

Whether it is a realistic objective even to try to build groups to match the strength of the supermarkets is doubtful. As someone pointed out at a farming conference a few days ago, to be equal in turnover to Sainsbury alone it would be necessary to control 20m acres – half the UK.

A potential marketing strategy which has never been fully exploited, however, might be to promote the real qualities of British food in a co-ordinated way so that it became natural and automatic for consumers to buy items that were home produced.

Attempts at this have been made before. Food From Britain, for instance, launched "quality certified" British food a few years ago. That was inadequately focused and did not take off. The NFU came up with its "Food From the Countryside" initiative in 1991, but it too has failed to make a significant impact. And there are dozens of individual commodity schemes through which producers and retailers are seeking to gain commercial advantage by advertising some special assurance of quality.

They are all too small, however, to impress the busy housewife and most of the limited cash available for such schemes is being wasted. What is required is a strategy to ensure the quality of UK produced food and to promote it to consumers. Effective UK policing of EC regulations already means that the quality and safety of British food is equal to or above that of most competitors, even though this fact is largely unrecognised by the public. It is high time capital was made from this superiority and all supermarkets fulfilled their collaborative assurances to the prime minister and submerged their own-brand marketing ploys on behalf of farmers and the nation.

They should co-operate to *initiate a nationally co-ordinated* strategy involving all those represented at 10 Downing Street last week and many others. It should establish production criteria acceptable to consumers. It should set standards for ethical, responsible and safe methods by which food should be produced. And it should provide a system of verification that the quality standards being claimed are achieved.

It would not be easy, because of factional interests. But the reward for attempting it could be a truly integrated British food industry serving the interests of the government, the farmers and the consumers.

More Brazilian iron ore deals agreed

By Bill Hinchberger in Sao Paulo

BRAZIL'S Companhia Vale do Rio Doce, the world's leading exporter of iron ore, has reached an agreement that will cut the price paid by Japanese steel mills by between 11 and 12 per cent.

Japan is the largest market for the state-owned company's ore production, accounting for about 19m tonnes of the company's 60.4m tonnes of exports last year. The price reductions are similar in scale to those contained in an agreement with German producers announced last week, and which the company suggested would set the pattern for its prices for the rest of Europe.

High grade northern sinter material, from the Carajas site, will be supplied at $18.15 a tonne and southern sinter at $16.90 a tonne.

Prices for pellets will be renegotiated under a separate accord. The German deal included a price reduction for pellets from $31 to $28 a tonne.

CVRD's existing contract with the Japanese mills will remain in effect until its scheduled expiry in April. A company official said that the early renegotiation was "completely atypical".

The company also revealed that producers in the UK and Italy will enjoy similar price reductions.

SA's maize crop facing failure

SOUTH AFRICA'S 1992-93 maize crop is at a critical stage and widespread rains are needed in the next few days to prevent a crop failure for the second year running, industry officials said, reports Reuter from Johannesburg.

"The crop is at a critical point. We need good, widespread and soaking rains in the next few days," Mr Peter Cownie, head of the Maize Board, said yesterday.

WORLD COMMODITIES PRICES

MARKET REPORT

London robusta **COFFEE** futures were depressed by further heavy speculative selling in New York yesterday, which traders attributed to technical factors. The March position in London closed at $956 a tonne, down $19 on the day. **COCOA** futures were also down, but that was largely a reflection of sterling's strength against the US dollar and dealers said the market's mood remained basically "constructive" after the comfortable absorption of about 40,000 tonnes of producer sales last week. At the London Metal Exchange the pound's firmness masked a modest rise in dollar prices for **COPPER**. LME **NICKEL** prices rose smartly from early lows, but the cash price still closed $42.50 down at $5,765 a tonne. Dealers said some support developed on the dip below $5,800 a tonne, and prices continued to advance on short-covering in after hours trading. There was little reaction in the gold market to news of the renewed allied attacks on Iraq and the London bullion market price closed just 30 US cents higher at $328.15 a troy ounce.

Compiled from Reuters

London Markets

SPOT MARKETS

Crude oil (per barrel FOB)(Mar)		+ or -
Dubai	$15.15-5.25	-0.15
Brent Blend (dated)	$17.20-7.25	-.125
Brent Blend (Mar)	$17.40-7.50	-0.15
W.T.I (1 pm est)	$18.95-9.00	-0.15
Oil products (NWE prompt delivery per tonne CIF)		+ or -
Premium Gasoline	$185-187	
Gas Oil	$170-171	-1
Heavy Fuel Oil	$72-73	+0.5
Naphtha	$180-183	-1
Petroleum Argus Estimates		
Other		+ or -
Gold (per troy oz)♣	$328.15	+0.3
Silver (per troy oz)♣	367.5c	+1
Platinum (per troy oz)	$357.0	+0.8
Palladium (per troy oz)	$109.65	+3.35
Copper (US Producer)	106.5c	-3.5
Lead (US Producer)	33.5c	-1.13
Tin (Kuala Lumpur market)	14.82r	+0.07
Tin (New York)	271.5c	+1
Zinc (US Prime Western)	62.0c	
Cattle (live weight)†	117.42p	+0.29*
Sheep (live weight)†♣	87.69p	-0.63*
Pigs (live weight)†	80.33p	+0.65*
London daily sugar (raw)	$217.1	+1.5
London daily sugar (white)	$256.8	+0.5
Tate and Lyle export price	£249.5	+0.5
Barley (English feed)	£135.75u	
Maize (US No. 3 yellow)	£161.0	
Wheat (US Dark Northern)	Unq	
Rubber (Feb)♥	64.75p	
Rubber (Mar)♥	65.25p	
Rubber (KL RSS No 1 Jan)	237.0m	+1.5
Coconut oil (Philippines)§	$452.5y	-5
Palm Oil (Malaysian)§	$407.5z	+2.5
Copra (Philippines)§	$260	
Soyabeans (US)	£174.0	+0.5
Cotton "A" Index	57.60c	+0.05
Wooltops (64s Super)	386p	

£ a tonne unless otherwise stated. p-pence/kg. c-cents/lb r-ringgit/kg. y-Mar/Apr u-Feb z-Aug w-Dec/Jan z-Jan/Mar. ♥London physical. §CIF Rotterdam ♣ Bullion market close. m-Malaysian cents/kg. ♣Sheep prices are now live weight prices * change from a week ago, provisional prices

SUGAR - London FOX ($ per tonne)

Raw	Close	Previous	High/Low	
Mar	189.00	190.00	189.60	187.40
May	183.00		192.00	192.00
White	**Close**	**Previous**	**High/Low**	
Mar	251.60	254.00	253.60	251.50
May	252.50	256.00	253.60	252.00
Aug	256.50	259.50	258.10	256.00
Oct	243.30	246.50	245.10	243.00
Dec	246.70		246.50	
Mar	247.90		248.00	

Turnover: Raw 46 (2) lots of 50 tonnes. White 846 (1208) Paris- White (FFr per tonne): Mar 1415.83 May 1439.84

CRUDE OIL - IPE $/barrel

	Latest	Previous	High/Low	
Mar	17.47	17.50	17.75	17.38
Apr	17.61	17.61	17.83	17.53
May	17.70	17.74	17.86	17.67
Jun	17.81	17.87	18.00	17.81
Jul	17.91	17.94	18.00	17.91
IPE Index	17.55	17.19		

Turnover 16864 (14868)

GAS OIL - IPE $/tonne

	Close	Previous	High/Low	
Feb	165.25	166.00	167.50	165.00
Mar	165.50	166.25	167.60	165.50
Apr	164.75	165.25	166.50	164.50
May	164.75	165.25	165.50	164.75
Jun	165.50	165.50	166.75	164.75
Jul	165.75		166.75	
Aug	168.25		168.25	
Sep	171.50		171.75	

Turnover 6389 (6479) lots of 100 tonnes

TEA

There was strong general demand, reports the Tea Brokers' Association. Colourry Assams ruled fully firm to often dearer, but plainer types were irregular. Brighter Africans sold well with prices 5 to 10p higher, while mediums remained fully firm. Offshore teas met good competition at generally dearer rates. Quality 210p/kg, good medium 182p/kg, medium 166p/kg, low medium 128p/kg.

COCOA - London FOX £/tonne

	Close	Previous	High/Low	
Mar	705	713	713	702
May	718	728	726	716
Jul	730	741	739	730
Sep	744	754	751	743
Dec	763	775	772	766
Mar	787	796	793	787
May	800	810	801	799

Turnover: 2860 (3256) lots of 10 tonnes
ICCO indicator prices (SDRs per tonne). Daily price for Jan 15 784.59 (789.16) 10 day average for Jan 14 750.93 (747.60)

COFFEE - London FOX $/tonne

	Close	Previous	High/Low	
Jan	973	987	971	960
Mar	957	975	961	940
May	936	951	938	920
Jul	927	936	928	912
Sep	934	945	935	918
Nov	940	952	931	

Turnover: 5195 (3157) lots of 5 tonnes
ICO indicator prices (US cents per pound) for Jan 15: Comp. daily 60.77 (60.77) 15 day average 61.94 (62.22)

POTATOES - London FOX £/tonne

	Close	Previous	High/Low	
Apr	82.0	82.5	81.0	
May	71.0		71.0	

Turnover 4 (26) lots of 20 tonnes.

SOYAMEAL - London FOX £/tonne

	Close	Previous	High/Low	
Apr	150.50	152.00	152.00	150.50

Turnover 75 (36) lots of 20 tonnes.

FREIGHT - London FOX $10/index point

	Close	Previous	High/Low	
Jan	1265	1280	1280	1265
Feb	1255	1270	1265	1255
Mar	1255	1265	1260	1255
Apr	1280	1288	1270	1255
BFI	1283	1294	1283	

Turnover 173 (118)

GRAINS - London FOX £/tonne

Wheat	Close	Previous	High/Low	
Jan	136.50	136.90	136.50	136.00
Mar	137.40	137.40	137.40	
May	139.30	139.30	139.30	139.15
Barley	**Close**	**Previous**	**High/Low**	
Jan	131.25	-		

Turnover: Wheat 63 (314), Barley 0 (63).
Turnover lots of 100 Tonnes.

PIGS - London FOX (Cash Settlement) p/kg

	Close	Previous	High/Low
Mar	104.5	103.5	104.0
Apr	104.5	104.0	104.0
May	105.0	104.5	104.5
Jul	104.0	104.0	103.5

Turnover 13 (12) lots of 3,250 kg

LONDON METAL EXCHANGE (Prices supplied by Amalgamated Metal Trading)

	Close	Previous	High/Low	AM Official	Kerb close	Open Interest
Aluminium, 99.7% purity ($ per tonne)						Total daily turnover 58,139 lots
Cash	1212-13	1214-6	1205.5/1205	1205-05.5		
3 months	1234-34.5	1236-8	1235/1224	1227-27.5	1233-34	180,565 lots
Copper, Grade A (£ per tonne)						Total daily turnover 49,891 lots
Cash	1433.5-34.5	1445-6	1426/1424	1425-25.5		
3 months	1452-52.5	1462-2.5	1453/1441	1444-44.5	1444-45	159,997 lots
Lead (£ per tonne)						Total daily turnover 5,258 lots
Cash	280.5-1.50	283-4	279	279-79.5		
3 months	291-92	293.5-4.0	294/290	290.25-0.50	289-90	19,609 lots
Nickel ($ per tonne)						Total daily turnover 9,061 lots
Cash	5760-70	5805-10	5740/5730	5720-30		
3 months	5830-35	5875-85	5895/5770	5800-05	5870-75	42,331 lots
Tin ($ per tonne)						Total daily turnover 1,857 lots
Cash	5880-85	5840-50	5845	5840-45		
3 months	5925-30	5900-10	5920/5905	5905-15	5920-30	8,342 lots
Zinc, Special High Grade ($ per tonne)						Total daily turnover 44,500 lots
Cash	1057.5-58.5	1062-3	1055.5/1055	1055-56		
3 months	1076-76.5	1081-2	1077/1069	1073-74	1072-73	70,299 lots

LME Closing £/$ rate:
SPOT: 1.5495 3 months: 1.5360 6 months: 1.5252 9 months: 1.5165

LONDON BULLION MARKET (Prices supplied by N M Rothschild)

Gold (troy oz)	$ price	£ equivalent
Close	328.00-328.30	
Opening	327.60-328.00	
Morning fix	327.90	212.412
Afternoon fix	328.15	212.052
Day's high	328.30-328.60	
Day's low	327.70-328.00	

Loco Ldn Mean Gold Lending Rates (Vs US$)			
1 month	0.29	6 months	1.55
2 months	0.43	12 months	1.83
3 months	0.61		

Silver fix	p/troy oz	US cts equiv
Spot	236.60	367.50
3 months	241.20	372.25
6 months	244.85	373.05
12 months	252.35	380.55

GOLD COINS	$ price	£ equivalent
Krugerrand	328.00-331.00	212.00-214.00
Maple leaf	337.95-340.15	
New Sovereign	78.50-81.50	51.00-53.00

TRADED OPTIONS

Aluminium (99.7%)	Calls		Puts	
Strike price $ tonne	Feb	May	Feb	May
1200	42	73	15	24
1225	27	58	25	33
1250	17	45	40	45
Copper (Grade A)	**Calls**		**Puts**	
2200	66	88	34	62
2250	41	64	59	87
2300	23	45	91	118
Coffee	**Mar**	**May**	**Mar**	**May**
950	32	43	36	57
1000	13	27	67	91
1050	5	17	59	131
Cocoa	**Mar**	**May**	**Mar**	**May**
650	59	76	4	9
675	40	58	10	16
700	24	43	19	26
Brent Crude	**Mar**	**Apr**	**Mar**	**Apr**
1750		43		38
1800		15		54
1850		11		

New York

GOLD 100 troy oz.; $/troy oz.

	Close	Previous	High/Low	
Jan	328.0	327.0	0	0
Feb	328.0	327.0	329.2	326.9
Mar	328.5	327.5	0	0
Apr	329.0	328.0	329.1	328.0
Jun	330.1	329.1	330.4	329.1
Aug	331.4	330.3	330.9	330.8
Oct	332.9	332.0	0	0
Dec	334.4	333.5	334.4	334.0

PLATINUM 50 troy oz; $/troy oz.

	Close	Previous	High/Low	
Jan	359.4	359.0	0	0
Apr	358.4	356.0	359.0	355.5
Jul	354.1	353.7	355.0	353.5
Oct	352.6	352.2	0	0
Jan	351.4	351.0	0	0

SILVER 5,000 troy oz; cents/troy oz.

	Close	Previous	High/Low	
Jan	368.8	366.3	0	0
Feb	367.5	366.0	0	0
Mar	368.3	366.8	369.5	366.5
May	370.7	369.2	371.0	369.0
Jul	373.1	371.6	373.5	371.5
Sep	375.7	374.2	0	0
Dec	379.8	378.3	380.5	378.5
Jan	380.8	379.3	0	0

HIGH GRADE COPPER 25,000 lbs; cents/lbs

	Close	Previous	High/Low	
Jan	97.90	98.15	98.00	97.80
Feb	98.25	98.40	98.05	98.15
Mar	98.60	98.80	100.00	98.50
Apr	98.85	99.00	99.30	99.00
May	99.00	99.15	100.20	98.90
Jun	99.10	99.25	99.30	99.30
Jul	99.25	99.35	100.50	99.80
Aug	99.40	99.50	0	0

CRUDE OIL (Light) 42,000 US galls $/barrel

	Latest	Previous	High/Low	
Feb	18.90	18.87	19.03	18.76
Mar	19.02	19.03	19.15	18.90
Apr	19.14	19.17	19.27	19.03
May	19.28	19.29	19.40	19.20
Jun	19.40	19.41	19.47	19.36
Jul	19.52	19.48	19.58	19.42
Aug	19.53	19.53	19.67	19.47
Sep	19.56	19.57	19.56	19.50

HEATING OIL 42,000 US galls, cents/US galls

	Latest	Previous	High/Low	
Feb	53.45	53.37	53.90	53.15
Mar	53.95	53.80	54.30	53.56
Apr	53.85	53.59	54.00	53.50
May	53.25	53.09	53.50	53.15
Jun	53.10	52.99	53.35	53.05
Jul	53.45	53.24	53.65	53.40
Aug	54.10	53.89	54.50	54.15
Sep	55.30	55.04	55.56	55.50
Oct	55.94	55.94	0	0
Nov	56.80	56.79	56.80	56.80

COCOA 10 tonnes;$/tonnes

	Close	Previous	High/Low	
Mar	983	990	986	977
May	1009	1014	1010	1000
Jul	1028	1033	1028	1024
Sep	1052	1057	0	0
Dec	1079	1089	1078	1078
Mar	1113	1112	0	0
May	1135	1137	0	0
Jul	1160	1159	0	0
Sep	1183	1182	0	0
Dec	1213	1212	0	0

COFFEE "C" 37,500lbs; cents/lbs

	Close	Previous	High/Low	
Mar	68.65	69.75	68.95	68.75
May	74.20	74.70	74.25	72.20
Jul	75.95	76.60	75.95	74.25
Sep	77.80	78.20	77.80	76.15
Dec	80.25	80.75	80.00	79.00
Mar	82.70	83.20	0	0
May	85.00	85.15	0	0

SUGAR WORLD "11" 112,000 lbs; cents/lbs

	Close	Previous	High/Low	
Mar	8.41	8.57	8.54	8.40
May	8.56	8.68	8.64	8.55
Jul	8.64	8.74	8.70	8.62
Oct	8.64	8.73	8.70	8.60
Mar	8.69	8.77	8.74	8.70
May	8.75	8.85	0	0

COTTON 50,000; cents/lbs

	Close	Previous	High/Low	
Mar	61.01	61.29	61.45	60.45
May	61.50	61.67	61.70	61.05
Jul	62.05	62.20	62.15	61.75
Oct	61.40	61.20	61.20	60.20
Dec	60.54	60.37	60.55	60.02
Mar	61.21	61.10	61.00	61.00
May	61.56	61.40	0	0
Jul	62.15	62.00	0	0

ORANGE JUICE 15,000 lbs; cents/lbs

	Close	Previous	High/Low	
Jan	80.10	81.00	80.00	79.50
Mar	82.05	82.05	82.00	80.00
May	84.80	84.45	84.80	82.50
Jul	86.90	86.05	86.05	85.00
Sep	88.50	87.05	87.00	86.25
Nov	88.05	88.75	0	0
Jan	88.50	87.60	89.00	88.00
Mar	89.55	89.45	89.65	89.60
May	90.05	90.05	0	0

INDICES

REUTERS (Base: September 18 1931 = 100)

Jan.18	Jan.15	mnth ago	yr ago
1728.5	1714.7	1660.1	1603.3

DOW JONES (Base: Dec. 31 1974 = 100)

	Jan.15	Jan.14	mnth ago	yr ago
Spot	122.84	123.69	121.51	114.86
Futures	122.48	122.91	121.58	122.61

Chicago

SOYABEANS 5,000 bu min; cents/60lb bushel

	Close	Previous	High/Low	
Jan	587/2	583/0	588/0	580/0
Mar	584/2	581/4	585/4	578/0
May	587/2	584/0	588/0	580/4
Jul	587/6	588/4	592/6	585/2
Aug	592/6	588/4	593/0	586/4
Sep	591/4	589/0	592/0	586/0
Nov	595/6	592/2	596/0	589/2

SOYABEAN OIL 60,000 lbs; cents/lb

	Close	Previous	High/Low	
Jan	21.41	21.37	21.42	21.17
Mar	21.39	21.52	21.52	21.33
May	21.83	21.74	21.85	21.35
Jul	22.02	21.92	22.02	21.75
Aug	22.02	21.94	22.00	22.00
Sep	22.05	21.95	22.05	22.05
Oct	22.10	21.95	22.10	21.80
Dec	22.08	21.98	22.15	22.08

SOYABEAN MEAL 100 tons; $/ton

	Close	Previous	High/Low	
Jan	186.4	184.6	186.5	184.0
Mar	185.1	183.8	185.2	183.1
May	184.2	183.0	184.3	182.8
Jul	185.1	184.0	185.2	183.6
Aug	185.8	184.6	185.8	184.2
Sep	186.2	185.6	186.2	185.1
Oct	187.2	186.5	0	0
Dec	187.7	187.4	188.0	187.0

MAIZE 5,000 bu min; cents/56lb bushel

	Close	Previous	High/Low	
Mar	218/0	217/0	218/2	216/4
May	225/0	225/0	226/0	224/2
Jul	233/6	231/6	233/0	231/0
Sep	238/0	237/2	238/0	236/0
Dec	243/2	242/6	243/4	241/2
Mar	249/4	249/4	249/4	249/2
May	254/4	254/4	254/4	253/6

WHEAT 5,000 bu min; cents/60lb-bushel

	Close	Previous	High/Low	
Mar	381/4	380/2	382/0	377/4
May	357/6	359/4	357/0	353/6
Jul	331/2	332/2	335/6	329/6
Sep	330/0	335/2	335/4	330/0
Dec	340/4	345/4	345/4	343/0
Mar	348/4	348/4	0	0

LIVE CATTLE 40,000 lbs; cents/lbs

	Close	Previous	High/Low	
Feb	80.600	80.700	81.150	80.350
Apr	78.725	79.075	79.450	78.700
Jun	73.450	74.000	74.175	73.400
Aug	71.600	72.125	72.250	71.560
Oct	72.100	72.750	72.850	72.050
Dec	72.400	73.125	73.125	72.400
Feb	80.650	80.700	81.150	80.550

LIVE HOGS 40,000 lb; cents/lbs

	Close	Previous	High/Low	
Feb	43.875	44.025	44.200	43.650
Apr	43.200	43.500	43.600	43.000
Jun	47.825	48.000	48.150	47.700
Jul	47.375	47.600	47.800	47.250
Aug	45.900	46.250	46.000	45.650
Oct	41.975	42.225	42.050	41.700
Dec	42.900	43.250	43.000	42.650
Feb	42.775	43.275	0	43.100

PORK BELLIES 40,000 lbs; cents/lb

	Close	Previous	High/Low	
Feb	35.675	37.500	37.925	35.550
Mar	35.325	37.900	37.900	36.125
May	37.550	38.375	38.050	37.300
Jul	37.900	39.350	39.300	37.675
Aug	36.775	38.125	38.100	36.700

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LONDON STOCK EXCHANGE

Shares drift down in lacklustre trade

By Terry Byland, UK Stock Market Editor

TRADING all but ground to a halt yesterday afternoon as the London stock market turned its attention from the uncertain economic scene to the heightening tensions in the Middle East. Although shares rallied after giving ground when Herr Dietmeyer, vice-president of the Bundesbank, said inflation in Germany was still "unacceptably high", news of a fresh allied air strike against Iraq unsettled the market in the second half of the session. With Wall Street activity reduced by the Martin Luther King holiday, London closed on a lacklustre note.

Firmness in sterling gave some support at first to hopes that the next cut in UK base rates will not be too long delayed, in spite of a warning from Mr Norman Lamont, chancellor of the exchequer, that the government faces difficulties in keeping inflation under control. But optimism was finally discouraged yesterday by Herr Dietmeyer's comments, which undermined hopes that the Bundesbank might this week lead the way to lower interest rates across Europe.

The FT-SE Index closed 2 points lower on the day at 2,763.1, having failed to sustain an early gain of 10 points as investors hoped that the new trading account which opened yesterday would bring some recovery from the setback of the previous week.

In the absence of support from the investment funds, share prices moved narrowly throughout the session. The more revealing image of the trading session came from the day's Seaq volume total of only 488m shares, the lowest daily figure since the turn of the year. On Friday 616.5m shares were traded, and retail, or customer, business was worth £1.19bn, well up to recent daily averages.

US dollar weakness, in spite of warlike developments in the Middle East, took the heart out of the international blue chips. Leading oil issues suffered from the subdued trading pattern on Wall Street.

Traders believed that the London market was still restrained by fears of rights issues from leading UK companies, and also by concern over the outlook for the government bond market as the City awaited details of the impending funding moves.

The current setback in equities was ascribed to the unexpected commitment of investment funds to UK stocks during the Christmas period. At that time, share prices rose strongly, with gains often exaggerated by lack of stock on traders' books, and are proving highly vulnerable now that the institutions have backed away again.

Today is expected to bring the first comprehensive details of the Christmas selling season at the leading UK retail stores. Hints of higher retail sales volumes in the final days of December, which traditionally provide the lion's share of sales and annual profits for the retailers, underpinned the stock market's Christmas gains.

The warnings on inflation, both from the UK chancellor and the Bundesbank vice-president, have also damped down the enthusiasm shown on the London stock market during the final months of last year. Hopes for a further reduction in UK base rates, probably to 6 per cent, have now been postponed until the spring and, according to some analysts, will be incorporated in the chancellor's Budget measures.

TRADING VOLUME IN MAJOR STOCKS

	Volume 000's	Closing Price	Day's change		Volume 000's	Closing Price	Day's change		Volume 000's	Closing Price	Day's change		Volume 000's	Closing Price	Day's change
ADT	0	485	-6	Comm. Union	269	619	+6	Lonrho	1,700	73	+1	Shell Transport	3,700	526	-6
ASDA Group	16,000	65	+½	Cookson	189	200	+1	Lucas	4,200	145	+1	Siebe	1,600	446	+8½
Abbey National	7,700	359	-6	Courtaulds	793	558	-11	MB Caradon	371	304	-2	Slough Ests	238	154	
Albert Fisher	608	70	+1	Dalgety	507	487	+2	MEPC	758	329	+1	Smith (W.H.) A	186	455	
Allied-Lyons	1,700	604	-2	De La Rue	361	874	-2	Manweb	180	496	-8	Smith & Nephew	945	157	
Amstrad	931	23½		Dixons	952	227	+1½	Marks & Spencer	4,480	319	+2	SmKl Beecham	3,500	477	-1
Anglian Water	445	476	-7	Eastern Elect.	1,600	425	-4½	Midlands Elect.	103	472	-½	SmKl Beecham Uts.	2,900	414½	-1½
Argos	665	263	+1	East Midland Elect.	863	428	-5½	Morrison (Wm.)	303	165		Smiths Inds.	1,400	378	-1
Argyll Group	1,000	396	+1	Eng China Clays	172	454		NFC	883	259	-5	Southern Elect.	121	435	+1
Arjo Wiggins	326	151	-1	Enterprise Oil	739	400	+1	NatWest Bank	3,500	411	-5	South Wales Elect	155	509	-8
Ass. Brit. Foods	368	500	+½	Eurotunnel Units	288	394	+5	National Power	3,400	290	+1	South West Water	178	495	-4
Ass. Brit. Ports	65	361		FKI	480	111	+1	Next	3,800	148	+2	South West. Elect.	285	462	
BAA	999	774	+2	Fisons	1,200	229	-2	North West Water	919	469	-6½	Southern Water	301	465	-3
[illegible]				[illegible]				[illegible]				[illegible]			
British Gas	9,000	290	+2½	Inchcape	869	556	-8	Ryl Bk Scotland	782	214					
British Land	273	183		Kingfisher	382	554	-1	Royal Insurance	1,100	276	-3				
British Steel	2,200	81½	-½	Kwik Save	195	791	-1	Saatchi	141	172	-1				
Bunzl	634	122	-1	Ladbroke	1,100	169	+1	Sainsbury	321	563	+1				
Burmah Castrol	146	685	-3	Land Securities	761	439	+2	Scottish & New.	895	441	+3				
Burton	4,500	75½	+1½	Laporte	812	628	+3	Scot. Hydro-Elect.	111	242	-2				
Cable & Wire.	1,000	711	-1	Legal & General	845	441		Scottish Power	3,300	224	-1½				
Cadbury Schweppes	3,700	460	+1	Lloyds Abbey	147	424	-1	Sears	1,300	99					
Calor Group	10	228	+2	Lloyds Bank	2,600	504	-5	Sedgwick	651	174	+1				
Carlton Comms.	1,000	813	+10	LASMO	1,100	146	+4½	Seeboard	35	471					
Coats Viyella	2,600	212	-3	London Elect.	959	447	+4	Severn Trent Water	1,000	455	-6				

Based on the trading volume for a selection of Alpha securities dealt through the SEAQ system yesterday until 4.30pm. Trades of one million or more are rounded down.

Account Dealing Dates

*First Dealings:		
Jan 4	Jan 18	Feb 1
Option Declarations:		
Jan 14	Jan 28	Feb 11
Last Dealings:		
Jan 15	Jan 29	Feb 12
Account Day:		
Jan 25	Feb 8	Feb 22

*New time dealings may take place from 8.30am two business days earlier.

Two-way pull on Airways

BRITAIN'S flag carrier airline British Airways was one of the most actively dealt stocks yesterday as negative sentiment continued to exact its toll on the shares following last week's "dirty tricks" settlement with Virgin Airways.

Turnover rose to 4.7m and, at the day's worst, the shares were down 10½ at 260p on fear of further negative revelations over the affair. This was compounded by concern that BA may have to surrender more lucrative slots to Virgin following a meeting last night with the UK transport minister. Fears of an escalation of the conflict with Iraq also weakened the market's enthusiasm.

However, a feeling that the earlier falls had been overdone later emerged, boosted by reports that BA would soon announce a revised partnership deal with USAir, the sixth largest carrier.

This steadied nerves and, together with bargain hunting during the afternoon, helped the stock to lift off the bottom and close 5¼ down at 265p.

Thames deals

Thames Water underperformed a generally unhappy water sector after reports that the group's directors had sold around 1.2m bonus shares into the market. The Thames directors were said to have sold the stock at 480p and it was later placed in the market around 482p. The block accounted for most of the turnover in Thames Water yesterday, which totalled some 3m shares.

The Thames stock was thought to have been taken with a minimum of fuss. But there were suggestions that the water sector had seen a good deal of switching involving the four water stocks in the FT-SE 100. Anglian lost 7 to 476p, North West 6¼ to 469p and Severn Trent 6 to 455p. Thames settled 9 off at 484p.

Unilever pleases

Reports of strong earnings at Unilever at the first of a series of planned meetings with analysts helped to bolster confidence in the shares, which have underperformed both the food manufacturing sector and the general market over the past three months.

The shares advanced 11 to 1079p, although in thin turnover of 700,000. The presentations, held to inform market specialists about Unilever's fourth-quarter trading position, are due to continue over the next few days, with analysts predicting further strengthening on the group's upbeat message.

Earnings growth in the US, where operating profits declined last quarter, was reported to have recovered well, while reassurances were given over market worries about Unilever's exposure to the weakening German economy. There was also talk of Unilever strengthening its position in a number of key sectors, with the group privately saying that earnings growth was above 15 per cent on the same period last year.

By coincidence, the Anglo-Dutch group yesterday announced a tie-up with BSN, the French food company, to market frozen yoghurt on the Continent. Unilever shares have underperformed the All-Share by around 8 per cent over the last quarter and the food manufacturing sector has lagged behind the All-Share by 1 per cent.

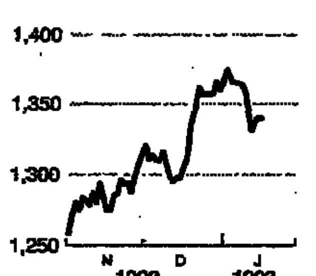
BCI meetings

Meetings between Blue Circle Industries and several London stockbroking firms provided the trigger for minor increases in profits estimates by building analysts. Also, worries about a possible cut in the building materials group's dividend, due to be announced in mid-April, when it reports preliminary figures, were generally dispelled.

Specialists said Cazenove, BCI's own broker, had met the company and edged its current profits forecast higher, from around £78m to £84m, although this was not confirmed.

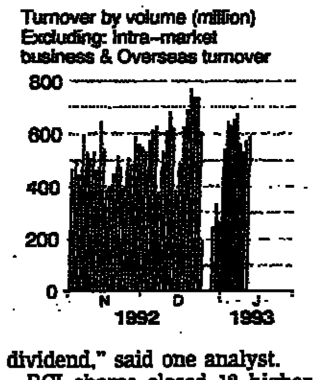
The upgrade was described as largely cosmetic and made because the proceeds of the recent disposal by the group of its ATCO lawnmower business will be taken above the line on the profit and loss account. "The rise in the shares reflects prospects for 1993 and the dividend," said one analyst.

FT-A All-Share Index



Equity Shares Traded

Turnover by volume (million) Excluding: intra-market business & Overseas turnover



BCI shares closed 12 higher at 208p after heavy turnover of 4.9m. The shares fell away to 124p last October, the lowest level since August 1986, but have subsequently moved sharply higher, partly because of takeover speculation.

Composite insurers provided two firm features in General Accident, boosted by a Hoare Govett recommendation and 14 higher at 574p, and Commercial Union, where UBS was believed to be recommending a switch from Prudential into CU.

A move by glass manufacturer Pilkington to increase its float glass prices by 8 per cent drew a positive response from the market, where Pilkington shares were hoisted 4 to 111p. Turnover was a good 3.2m shares.

The price rise is the third by Pilkington since the winter of 1991. The previous two failed to stick. The news immediately impacted on Heywood Williams, the glass distributor, whose shares raced up 12 to 204p on hopes of improved merchanting margins.

Housebuilder Tay Homes shocked the market by announcing a profits warning, the shares losing 17 at 151p, after 146p.

Pharmaceuticals group Glaxo Holdings rose 12½ to 728p after recent falls and a rebound on Friday in US drug shares. The stock shrugged off reports from the Netherlands that Glaxo's new migraine treatment might be linked with heart attacks as well as harmless chest pains.

Second-line pharmaceutical stocks, found a buy opportunity last week by one analyst, also performed well. Amersham gained 5 to 679p and London International improved 5 to 269p xd. The sector was hit in the new year as a number of investors moved away from stocks perceived as recession proof.

Recently merged television company Yorkshire/Tyne Tees jumped 14 to 136p ahead of today's full-year results. The company is expected to announce profits of about £20m.

There was very vague talk that Carlton Communications might link up with London Weekend Television. Carlton, which has been recommended by analysts for fundamental reasons, gained 10 at 813p. LWT preference shares put on 5 at 300p.

Belief that Resort Hotels will hold its dividend tomorrow, together with a broker's buy note, helped the shares improve 3 to 42p.

Bass remained friendless, with the pall of sell notes from Kleinwort Benson and NatWest Securities continuing to cover the stock. There are also worries over the annual meeting statement due this week. The shares closed 11 cheaper at 588p.

Vague bid talk was heard in Cadbury-Schweppes after last week's Hanson rumours, but the shares failed to react, closing a penny firmer at 460p.

Hopes of good interims this week from Park Food lifted the shares 6 to 221p.

Dixons was weak in early trading after weekend press reports over the quality of its earnings, but the shares later rallied to close 1½ ahead at 227p xd.

The market appeared to discount suggestions that aero-engine maker Rolls-Royce would cut the dividend in March when it reports full 1992 year figures. The shares rose 5 to 112p in trade of 3.1m.

Confirmation that Charter Consolidated is planning to sell its 38.4 per cent stake in Johnson Matthey lifted the former and depressed the latter. Shares in Charter rose 15 to 663p, while those of Johnson Matthey gave up 19 to 494p. Several possible buyers were named, including German car group Volkswagen, but the favourite appeared to be American Barrick, the Canadian gold producer.

Chemicals group Courtaulds slid 11 to 558p on muted market talk of a profits downgrade.

Industrial gases specialist BOC Group improved 3 to 748p, with Hoare Govett highlighting the stock in its weekly sector review. The group also announced the appointment of a new deputy chairman.

MARKET REPORTERS: Christopher Price, Joel Kibazo, Peter John, Steve Thompson.

■ Other market statistics, Page 23

NEW HIGHS AND LOWS FOR 1992/93

NEW HIGHS (167). [illegible] ... (4) Cable & Wireless 7pc Cv. '08, Securicor, Do N/V, Security Servs., TEXTS (5) Caldwell, Celestion, Dewhirst, Leeds, Yorklyde, TRANSPORT (4) CSX, Dawsongroup, P & O 6¾pc Pf., Tibbett & Britten, WATER (1) Cheam.

NEW LOWS (13). CANADIANS (1) Gulf Canada, ELECTRICALS (1) Lec, ELECTRONICS (1) Molynx, INV TRUSTS (1) Gartmore Scot. Inc., MEDIA (1) Allied Radio, OIL & GAS (1) Petrofina, PACKG, PAPER & PRINTG (1) Sappi, PROP (1) Warnford, STORES (1) Oliver, MINES (4) Deelkraal, East Daggs, Hartebeest, Hamlo Gold.

FINANCIAL TIMES EQUITY INDICES

	Jan 18	Jan 15	Jan 14	Jan 13	Jan 12	Year ago	High	Low
Ordinary share	2140.6	2138.6	2140.6	2129.6	2137.0	1971.9	2209.9	1670.0
Ord. div. yield	4.39	4.39	4.39	4.42	4.40	4.66	5.34	4.23
Earning yld % full	6.03	6.03	6.03	6.07	6.04	6.99	-	-
P/E ratio net	21.16	21.16	21.13	21.02	21.11	17.98	21.93	15.79
P/E ratio nil	19.55	19.55	19.52	19.42	19.50	17.00	-	-
Gold Mines	61.3	62.2	61.9	60.8	61.3	158.2	160.6	60.4

*for 1992/93. Ordinary share index since compilation: high 2209.9 4/1/93 - low 49.4 26/6/40. Gold Mines index since compilation high: 734.7 15/2/83 - low 43.5 26/10/71. Basis Ordinary share 1/7/35; Gold Mines 12/9/55.

Ordinary Share hourly changes

Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.00	High	Low
2140.5	2150.1	2146.3	2141.2	2138.6	2137.1	2137.9	2138.8	2141.5	2150.3	2135.5

Volume	Jan 18	Jan 15	Jan 14	Jan 13	Jan 12	Year ago
SEAQ Bargains	28,754	31,846	28,618	26,741	26,977	30,102
Equity Turnover(£m)†	-	1192.8	1205.5	1219.1	1070.6	779.9
Equity Bargains†	-	36,305	32,003	31,107	30,332	30,408
Shares traded (mil)†	-	593.2	505.2	575.0	534.3	348.9

† Excluding intra-market business and overseas turnover.

London report and latest Share index
Tel. 0891 123001. Calls charged at 36p/minute cheap rate, 48p at all other times.

EQUITY FUTURES AND OPTIONS TRADING

INCREASED tension in the Middle East, along with continuing worries over the UK economy, led to a lack of activity in the derivatives sector, writes Joel Kibazo.

On the Liffe, trading in the March contract on the FT-SE Index opened at 2,789 and demand from several US houses soon sent it to 2,794.

The positive mood faded as fears of further activity in the Gulf emerged and the gilts market performed poorly. By 11.30am, the contract had fallen to 2,766. March drifted for the next few hours before talk of a cut in interest rates led to renewed buying.

This was curtailed by confirmation of an attack in the Middle East as the early buyers used the unease over the news to turn sellers.

March closed at 2,769, down 16 from its previous close and 3 points below its estimated fair value premium to cash, which yesterday fell to 9. Turnover was a poor 4,981 contracts, just over half Friday's total.

Traded options were equally dull and turnover reached a meagre 17,541 lots. Some 4,759 contracts were dealt in the FT-SE 100 option, while the Euro FT-SE 100 option only traded 626 lots.

Lonrho was the most actively dealt stock option with a day's total of 1,842 lots. This was followed by Hillsdown at 1,720 and then by British Airways at 985, with the January 280 puts the most busy series.

FT-SE Actuaries Share Indices — THE UK SERIES

FT-SE 100	FT-SE MID 250	FT-A ALL-SHARE
2763.1 −2.0	2895.7 +5.1	1340.25 +0.09

	Jan 18	Day's change %	Jan 15	Jan 14	Jan 13	Year ago	Earnings yield %	Dividend yield %	P/E Ratio	Xd adj ytd
FT-SE 100	2763.1	-0.1	2765.1	2758.2	2745.3	2544.9	6.43	4.40	19.99	3.43
FT-SE Mid 250	2895.7	+0.2	2890.6	2888.1	2878.3	2447.8	5.92	4.47	18.46	5.18
FT-SE-A 350	1359.5	—	1359.8	1357.3	1350.7	1230.0	6.53	4.41	19.64	1.85
FT-SE SmallCap	1423.92	+0.4	1418.58	1413.17	1406.61	—	—	4.49	—	1.89
FT-SE SmallCap ex Inv Trusts	1434.49	+0.4	1428.09	1421.82	1416.87	—	6.39	4.75	22.42	1.77
FT-A ALL-SHARE	1340.25	—	1340.16	1337.58	1331.18	1215.84	—	4.41	—	1.82
1 CAPITAL GOODS(211)	877.82	+0.2	875.84	878.98	869.89	787.02	6.44	4.90	20.32	1.27
2 Building Materials(27)	903.58	+1.5	889.77	893.38	887.30	857.37	5.65	5.97	25.19	0.77
3 Contracting, Construction(29)	728.13	—	728.34	731.46	729.30	872.91	3.54	8.70	87.76	0.20
4 Electricals(14)	2597.57	+0.9	2574.54	2554.02	2533.89	2504.26	6.23	5.58	21.08	1.02
5 Electronics(35)	2304.14	-0.3	2310.83	2324.44	2305.22	1723.91	6.83	3.70	18.51	13.48
6 Engineering-Aerospace(7)	306.08	+1.4	301.88	300.96	294.58	458.04	11.57	7.66	11.01	0.00
7 Engineering-General(52)	523.35	+0.2	522.17	522.69	521.05	485.04	7.75	4.55	16.50	0.96
8 Metals & Metal Forming(11)	329.94	-1.3	334.37	332.37	327.03	339.00	5.28	4.61	27.54	0.14
9 Motors(16)	387.55	+0.1	387.15	390.82	388.81	298.33	5.09	6.04	28.97	0.00
10 Other Industrials(18)	1981.20	-0.1	1983.98	1978.84	1939.27	1628.63	6.26	4.29	18.34	0.39
21 CONSUMER GROUP(232)	1709.96	+0.3	1704.86	1702.89	1699.43	1631.62	6.82	3.44	18.23	2.65
22 Brewers and Distillers(28)	1947.74	-0.2	1951.52	1948.23	1946.35	2056.02	8.58	3.89	14.11	10.14
25 Food Manufacturing(22)	1338.47	+0.2	1335.77	1327.57	1323.45	1233.96	7.86	3.90	15.91	1.46
26 Food Retailing(18)	3374.39	+0.5	3357.79	3345.28	3321.07	2442.04	7.64	3.01	17.03	0.41
27 Health & Household(25)	4032.90	+0.7	4004.75	4011.07	4025.25	4454.65	5.52	2.81	21.10	0.54
29 Hotels and Leisure(20)	1289.29	+0.1	1288.01	1292.18	1288.90	1265.92	6.52	5.35	20.20	6.25
30 Media(33)	1834.72	+0.1	1833.10	1829.24	1815.83	1445.40	5.43	2.83	22.97	6.94
31 Packaging and Paper(23)	786.39	-0.6	792.75	790.91	786.54	749.31	6.78	4.12	18.19	0.21
34 Stores(39)	1113.88	+0.6	1106.90	1105.54	1102.94	1003.89	6.46	3.25	20.51	0.98
35 Textiles(20)	746.75	-0.5	750.34	751.83	750.61	618.67	6.60	4.25	19.20	0.00
40 OTHER GROUPS(143)	1435.17	-0.4	1441.33	1435.76	1425.23	1207.80	8.53	4.84	14.43	3.04
41 Business Services(27)	1565.50	-0.5	1572.80	1555.82	1546.36	1415.70	5.73	3.29	21.53	0.14
42 Chemicals(24)	1442.96	—	1442.86	1438.70	1420.38	1461.13	6.35	5.07	19.84	0.30
43 Conglomerates(11)	1409.17	-0.7	1418.93	1418.12	1401.56	1354.86	7.55	7.60	15.12	1.63
44 Transport(16)	2738.14	-0.4	2748.92	2744.82	2698.55	2428.40	8.23	4.34	14.62	1.04
45 Electricity(16)	1578.79	-0.8	1589.96	1584.41	1578.75	1176.36	13.75	4.82	9.35	16.54
46 Telephone Networks(4)	1638.68	-0.4	1645.03	1630.58	1624.69	1372.38	8.13	4.17	15.59	1.56
47 Water(13)	3233.23	-1.1	3270.63	3271.27	3256.96	2235.78	14.13	5.48	7.86	11.83
48 Miscellaneous(32)	2475.33	+0.1	2473.04	2475.97	2461.71	1817.32	5.81	4.15	21.32	0.36
49 INDUSTRIAL GROUP(586)	1417.36	—	1416.81	1414.40	1407.54	1284.45	7.33	4.17	17.02	2.45
51 Oil & Gas(18)	2116.86	+0.1	2113.74	2120.78	2133.11	2198.50	6.31	6.13	20.84	0.00
59 "500" SHARE INDEX(604)	1485.82	—	1485.09	1483.30	1477.65	1366.02	7.23	4.36	17.33	2.31
61 FINANCIAL GROUP(89)	882.39	-0.3	884.51	878.89	866.79	736.85	—	4.98	—	0.68
62 Banks(9)	1201.65	-0.8	1211.45	1203.80	1183.93	885.18	5.02	4.64	30.12	0.00
65 Insurance (Life)(6)	1793.83	+0.6	1782.74	1743.52	1724.99	1467.86	—	4.50	—	0.00
66 Insurance (Composite)(7)	628.74	+0.5	625.67	626.95	624.17	518.48	—	5.07	—	0.00
67 Insurance Brokers(10)	786.09	+0.4	783.04	776.82	776.81	1016.91	7.71	6.79	17.42	0.00
68 Merchant Banks(6)	520.90	+0.3	519.12	520.39	516.13	460.63	—	4.38	—	0.00
69 Property(28)	641.17	+0.2	639.58	640.09	640.50	799.69	8.76	6.60	14.78	0.62
70 Other Financial(23)	303.18	+0.2	302.46	300.13	297.56	239.50	7.14	5.56	18.41	0.05
71 Investment Trusts(107)	1324.43	—	1324.87	1322.64	1321.46	1192.01	—	3.16	—	2.07
99 FT-A ALL-SHARE(808)	1340.25	—	1340.16	1337.58	1331.18	1215.84	—	4.41	—	1.82

Hourly movements

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	High/day	Low/day
FT-SE 100	2766.6	2775.6	2768.9	2764.1	2760.0	2758.9	2760.8	2762.2	2763.7	2775.6	2757.4
FT-SE Mid 250	2887.3	2894.0	2894.9	2893.7	2892.2	2892.5	2892.7	2893.1	2895.4	2895.7	2887.3
FT-SE-A 350	1360.1	1364.2	1361.7	1359.7	1358.0	1357.8	1358.4	1358.9	1359.7	1364.2	1357.0

Gross dividend yield (ACT at 25%) FT-SE 100: 4.40%

FT-SE Actuaries 350 Industry Baskets

Hourly	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	Close	Previous close	change
Constrcn	1440.3	1441.2	1439.7	1439.7	1437.3	1437.3	1434.5	1433.1	1436.6	1438.3	1439.3	-1.0
Health&H	1213.2	1217.5	1213.8	1212.0	1212.5	1210.1	1214.2	1214.5	1217.8	1216.8	1208.2	+8.6
Water	1348.9	1349.1	1349.3	1339.0	1337.0	1337.0	1337.4	1338.5	1337.0	1335.1	1352.1	-16.0
Banks	1469.0	1475.0	1472.5	1471.1	1468.8	1463.3	1458.9	1459.9	1459.6	1459.2	1472.0	-12.8

Additional information on the FT-SE Actuaries Share Indices is published in Saturday issues. Lists of constituents are available from The Financial Times Limited, One Southwark Bridge, London SE1 9HL. The FT-SE Actuaries Share Indices Service, which covers a range of electronic and paper-based products relating to these indices, is available from FINSTAT at the same address. The increase in the size of the FT-Actuaries All-Share Index from January 4 1993 means that the FT 500 now contains more stocks. It has been renamed the FT "500". The FT-SE 100, the FT-SE Mid 250 and the FT-SE Actuaries 350 indices are compiled by the London Stock Exchange and the FT-Actuaries All-Share Index is compiled by The Financial Times Limited, both in conjunction with the Institute of Actuaries and the Faculty of Actuaries under a standard set of ground rules.

The FT-SE Actuaries Share Indices are audited by The WM Company.

LONDON SHARE SERVICE

BRITISH FUNDS

[illegible]

BRITISH FUNDS - Cont.

[illegible]

OTHER FIXED INTEREST

[illegible]

Continued on next page

LONDON SHARE SERVICE

AMERICANS

[illegible]

CANADIANS

[illegible]

BANKS

[illegible]

BREWERS & DISTILLERS

[illegible]

BUILDING MATERIALS

[illegible]

BUILDING MATERIALS - Cont.

[illegible]

BUSINESS SERVICES

[illegible]

CHEMICALS

[illegible]

CONGLOMERATES

[illegible]

CONTRACTING & CONSTRUCTION

[illegible]

ELECTRICALS

[illegible]

ELECTRICITY

[illegible]

ELECTRONICS

[illegible]

ENGINEERING-AEROSPACE

[illegible]

ENGINEERING-GENERAL

[illegible]

ENGINEERING-GENERAL - Cont.

[illegible]

FOOD MANUFACTURING

[illegible]

FOOD RETAILING

[illegible]

HEALTH & HOUSEHOLD

[illegible]

HOTELS & LEISURE

[illegible]

HOTELS & LEISURE - Cont.

[illegible]

INSURANCE BROKERS

[illegible]

INSURANCE COMPOSITE

[illegible]

INSURANCE LIFE

[illegible]

INVESTMENT TRUSTS

[illegible]

INVESTMENT TRUSTS - Cont.

[illegible]

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INVESTMENT TRUSTS - Cont.

INVESTMENT COMPANIES

MEDIA

MERCHANT BANKS

METALS & METAL FORMING

MISCELLANEOUS

MOTORS

OIL & GAS

OIL & GAS - Cont.

OTHER FINANCIAL

OTHER INDUSTRIALS

PACKAGING, PAPER & PRINTING

PACKAGING, PAPER & PRINTING - Cont.

PROPERTY

TRANSPORT

WATER

SOUTH AFRICANS

STORES

PLANTATIONS

MINES

TELEPHONE NETWORKS

TEXTILES

MINES - Cont.

Greenwich Res	5¼	—	11	2	3.86	–
Hemlo Gold C$	23½	–⅛	25	23½	337.4	2.9
Iverain West I£	38	—	53	30	18.1	–
Kells Minis I£	8	—	42	8	0.19	–
Kenmare	7½	+½	8	2¼	7.20	–
Metinga Res	17½	–½	48	8	1.93	–
Nawas Res I£	25	—	34	15	3.35	–
5pc Ln Notes	25	—	28	25	4.55	–
Oryx Gold	47	–½	103	46¾	–	–
Plateau	3#	—	13	3	1.37	–
RTZ	654	–4	686	469	6,959	4.0
Vaceya	2¾	–¼	3	1	1.47	–

GUIDE TO LONDON SHARE SERVICE

Company classifications are based on those used for the FT-Actuaries Indices and FT-Actuaries World Indices.

Closing mid-prices are shown in pence unless otherwise stated. Highs and lows are based on intra-day mid- prices.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Market capitalisation shown is calculated separately for each line of stock quoted.

Estimated price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation, excluding exceptional profits/losses and unrelieved ACT where applicable. Yields are based on mid-prices, are gross, adjusted to ACT of 25 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current pre-closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

□ Indicates the most actively traded stocks. This includes UK stocks where transactions and prices are published continuously through the Stock Exchange Automated Quotation system (SEAQ).
● "Tap Stock"
* Highs and lows marked thus have been adjusted to allow for rights issues for cash
† Interim since increased or resumed
‡ Interim since reduced, passed or deferred
‡‡ Tax-free to non-residents on application
◆ Figures or report awaited
♥ Not officially UK listed; dealings permitted under rule 535(4)(a)
♣ Free annual/interim report available, see details below.
✣ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
†† Not officially UK listed; dealings permitted under Rule 535(2)
# Price at time of suspension
¶ Indicated dividend yield after pending scrip and/or rights issue.
♦ Merger bid or reorganisation in progress
§ Forecast dividend yield; p/e based on earnings updated by latest interim statement.
♠ Unregulated collective investment scheme.

a Yield based on annualised dividend
b Figures based on prospectus or other official estimates.
c Cents.
f Flat yield.
g Assumed dividend yield after rights issue.
h Assumed dividend yield after scrip issue.
n Rights issue pending
q Earnings based on preliminary figures.
s Dividend yield excludes a special payment.
t Indicated dividend yield, p/e ratio based on latest annual earnings.
u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings
v Not subject to ACT.
z Dividend yield includes a special payment
E Auction basis
F Yield based on prospectus or other official estimates for 1994-95.
G Assumed yield after pending scrip and/or rights issue.
H Yield based on prospectus or other official estimates for 1993.
K Yield based on prospectus or other official estimates for 1992-93
L Estimated annualised yield, p/e based on latest annual earnings.
M Yield based on prospectus or other official estimates for 1993-94.
N Yield based on prospectus or other official estimates for 1992.
P Figures based on prospectus or other official estimates for 1994.
R Forecast annualised yield, p/e based on prospectus or other official estimates.
T Figures assumed.
W Pro forma figures.
Z Dividend yield to date.

Abbreviations:
xd ex dividend;
xc ex scrip issue;
xr ex rights;
xa ex all;
xc ex capital distribution.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1235 a year for each security shown, subject to the Editor's discretion

FT MANAGED FUNDS SERVICE

● Current Unit Trust prices are available from FT Cityline. For further details call (071) 925-2128.

AUTHORISED UNIT TRUSTS

AIB Unit Trust Managers Limited (1000)F

51 Belmont Rd, Uxbridge, Middx UB8 1RZ 0895 259783

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
AIB Grofund American	5	152.2	153.8	161.9	+0.60	0.00
AIB Grofund Equity	5	198.9	202.3	214.0	+0.40	3.33
AIB Grofund Euro	5	144.7	146.9	154.6	-0.90	0.37
AIB Grofund Ext Balanced	3	98.92	100.7	103.9	-1.50	2.53
AIB Grofund Gilt	3	75.29	75.32	77.64	-0.02	6.29
AIB Grofund Japan	5	118.5	119.8	126.1	-0.50	0.00

AXA Equity & Law Unit Tst Mngrs (1200)H

Equity & Law Hse, Corporation St, Coventry 0203 553231

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
General Inc	5	397.1	399.0	424.5	+0.6	2.79
General Acc	5	432.4	434.4	462.2	+0.5	2.79
UK Growth Acc	6	292.6	296.9	315.9	+0.4	3.14
UK Growth Inc	6	209.7	212.9	226.5	+0.3	3.14
Higher Inc Acc	6	512.7	520.9	554.2	-0.8	4.44
Higher Inc Inc	6	316.3	321.3	341.9	-0.4	4.44
Gilts/Fxd Int Acc	5½	167.6	167.6	177.0	+0.1	7.17
Gilts/Fxd Int Inc	5½	90.30	90.30	95.37	+0.03	7.17
Nth America	6	255.8	260.8	277.5	-0.8	0.00
Far East	6	228.6	228.6	243.2	-0.6	0.33
Europe	6	196.5	196.5	209.1	+1.6	1.11
Brit Excell	6	60.85	60.85	64.74	+0.15	3.18
Brit Fndmtls Acc	6	78.61	78.61	83.63	-0.01	5.22
Brit Fndmtls Inc	6	61.71	61.71	65.65	-0.01	5.22
Global Opps	6	63.13	63.78	67.86	+0.14	0.00

Abbey Unit Tst Mngrs (1000)H

80 Holdenhurst Rd, Bournemouth 0345 717373

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Gilts & Fixed Int	6	126.8	126.8xd	134.4		7.07
High Inc Equity	6	137.4	140.3xd	149.2	+0.1	5.70
Worldwide Bond	6	248.1	248.1	263.0	-0.6	4.75
American Growth	6	275.8	275.8xd	294.9	+0.9	.49
Asian Pacific	6	184.7	188.6	200.6	-0.8	.95
Assets & Earnings	6	212.1	216.5	230.3	+0.1	2.73
Capital Reserve Acc	0	124.0	124.0	124.4		5.98
Comdty & Energy	6	62.24	62.24	66.56	-0.02	1.32
1992 Enterprise	6	73.83	73.83	78.96	-0.19	2.62
Euro Capital Acc	6	98.30	98.30	105.1	-0.2	.99
Euro Capital Inc	6	93.15	93.15	99.62	-0.23	1.00
General	6	187.9	187.9	200.9	-0.1	2.89
Japan	6	82.44	82.44	88.17	-0.25	–
Mastertrust	6	101.7	101.7	108.7	-0.1	1.73
UK Growth Acc	6	171.1	171.1	182.9	+1.1	2.81
UK Growth Dist	6	106.6	106.6	114.0	+0.8	2.84
US Emerging Cos	6	109.1	110.9	117.9		–
Income & Growth	6	321.7	321.7	344.0	+0.3	4.07
Ethical	6	59.59	61.21	65.11	–	2.96
International	6	73.16	74.30	79.04	-0.04	1.29

Britannia Life Unit Managers Ltd (1200)F

50 Bothwell Street, Glasgow G2 6HR 041-223 6020

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Balanced Growth	6	87.72	88.82	94.99	-0.02	2.39
Do (Accum)	6	95.78	96.97	103.71	-0.03	2.39
Smaller Cos	6	70.44	70.44	75.33	-0.16	1.81
Do (Accum)	6	76.16	76.16	81.46	-0.18	1.81
Higher Yield	6	34.96	35.36xd	37.82	+0.01	4.52
Do (Accum)	6	47.70	48.24	51.59	+0.01	4.52
American Gth Inc	6	51.88	52.03	55.65	-0.08	0.29
Do (Accum)	6	52.86	53.02	56.70	-0.08	0.29
European Growth	6	87.61	87.93	94.04	-0.05	1.78
Do (Accum)	6	88.43	88.75	94.91	-0.05	1.78
Global Bond Inc	6	27.37	27.58xd	29.26	+0.02	5.78
Do (Accum)	6	33.63	33.89	35.95	+0.02	5.78
Managed P'folio Inc	6	31.36	31.44	33.62	+0.10	1.54
(Do Accum)	6	31.45	31.53	33.72	+0.10	1.54
Pacific Growth Accum	6	78.80	79.66	85.20	+0.86	1.17
Intl Spec Opps Accum	6	75.78	76.80	82.14	+0.27	1.09

Brown Shipley & Co Ltd (1000)F

9-17 Perrymount Rd Haywards Hth 0444 412262

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Mngd P'folio Inc	6	85.04	85.04	90.57	+0.40	2.30
Mngd P'folio Acc	6	159.2	159.2	169.6	+0.80	–
UK General	6	138.5	138.5	147.5	+0.20	3.44
Conv & General	6	18.18	18.18xd	19.45	+0.12	7.93
European Inc	6	20.70	20.70	22.27	+0.03	0.51
European Acc	6	21.37	21.37	23.00	+0.03	–
Financial	6	102.2	103.1	109.8	+0.30	4.05
Foundation	6	67.88	69.62	74.14	+0.34	3.78
German	6	36.60	36.60	39.25	+0.16	0.10
Growth Inc (5-1)	5	26.86	26.86	28.68	+0.12	3.23
Growth Acc (5-1)	5	31.27	31.27	33.40	+0.14	–
High Income	6	66.94	67.79	72.54	+0.21	6.48
Income	6	113.6	116.0	124.1	+0.10	4.68
Intl Income	6	82.45	82.45xd	87.81	-0.24	5.49
Intl Growth ♦	6	30.83	30.83	32.83	+0.13	0.24
Monthly Income	6	63.83	65.88	70.16	-0.04	4.80
North American	6	101.9	102.9xd	109.6	-0.10	0.20
Orient ♦	6	90.51	90.51	97.37	+0.09	–
Recovery	6	31.34	32.75	35.20	+0.15	3.35
Smaller Cos Acc	6	223.1	239.5	255.1	+5.70	–
Smaller Cos Inc	6	130.6	140.3	149.4	+3.30	1.54

Brycourt Unit Tst Mgmt Ltd (1400)F

Hesketh Hse, Portman Sq, W1H 0JR 071-935 6382

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Income Growth	1	184.1	184.1	189.3		6.59

Buckmaster Mangmt Co Ltd (0930)H

15 St Botolph Street, London EC3A 7JJ 071-247 4542

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Fellowship Tst	5¼	58.62	59.29	63.08	-0.28	1.52
(Accum Units)	5¼	65.37	66.11	70.34	-0.30	1.52
Income	5¼	197.4	199.7	212.5	+0.4	4.32
(Accum Units)	5¼	448.6	454.2	483.2	+1.0	4.32
Smaller Co's	5¼	103.0	106.0	112.8	+0.4	2.38
(Accum Units)	5¼	123.7	127.3	135.5	+0.5	2.38
Inv Portfolio	3	62.90	63.82	66.14	-0.04	2.44
(Accum Units)	3	70.46	71.49	74.09	-0.05	2.44
High Income Port ♦	3	55.28	56.16	58.20	+0.06	4.98

Guide to pricing of Authorised Unit Trusts

Compiled with the assistance of Lautro §§

INITIAL CHARGE: Charge made on sale of units. Used to defray marketing and administrative costs, including commission paid to intermediaries. This charge is included in the price of units.

OFFER PRICE: Also called issue price. The price at which units are bought by investors.

BID PRICE: Also called redemption price. The price at which units are sold back by investors.

CANCELLATION PRICE: The minimum redemption price. The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, most unit trust managers quote a much narrower spread. As a result, the bid price is often set above the cancellation price. However, the bid price might be moved to the cancellation price by the managers at any time, usually in circumstances in which there is a large excess of sellers of units over buyers.

TIME: The time shown alongside the fund manager's name is the time of the unit trust's valuation point unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: (♥) - 0001 to 1100 hours; (♣) - 1101 to 1400 hours; (♦) - 1401 to 1700 hours; (♠) - 1701 to midnight. Daily dealing prices are set on the basis of the valuation point, a short period of time may elapse before prices become available.

HISTORIC PRICING: The letter H denotes that the managers will normally deal on the price set on the most recent valuation. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis. The managers must deal at a forward price on request, and may move to forward pricing at any time.

FORWARD PRICING: The letter F denotes that the managers deal at the price to be set on the next valuation. Investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper are the most recent provided by the managers.

SCHEME PARTICULARS AND REPORTS: The most recent report and scheme particulars can be obtained free of charge from fund managers.

Other explanatory notes are contained in the last column of the FT Managed Funds Service.

§§ Life Assurance and Unit Trust Regulatory Organisation, Centre Point, 103 New Oxford Street, London WC1A 1QH Tel: 071 – 379 – 0444.

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FT MANAGED FUNDS SERVICE

● Current Unit Trust prices are available from FT Cityline. For further details call (071) 925 2128.

	Init Charge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Sharp (Albert E.) & Co (1000)F						
Admin: 5 Rayleigh Rd Hutton, Brentwood Essex						
Enquiries: 0277 227300				Dealing 0277 261010		
European	5	101 20	101.20	106 90	+0 20	1 77
Intl Bond & Conv	5	118.80	119.20	125 50	+0 20	1 77
Pooled Pension ♦	7	143 7	147 6	125 50	-0 10	5 75
Smaller Cos	5	57 80	59 64	157 9	...	-
UK General	5	113 00	114 80	62 78	+0 28	2.17
				120.80	+0 10	2 97
Sheppards Unit Trust Mngmt Ltd (1200)F						
1 White Hart Yard, London Bridge SE1				071 407 5966		
Income	5	371 21	371.21	393 48	-0 45	5 24
Global Inc	5	53 19	53 19	56 38	-0 03	4 30
Brit Leaders	5	309 36	309.36	327.92	+1.05	3 11
Intl Leaders	5	170 91	170.91	181 16	-0 49	1 81
PAs Man Bal Gwth Inc ♥	3½	50 12	51 40	53 40	+0 14	3 18
Singer & Friedlander UT Mgmt Ltd (1000)F						
PO Box 224, Beckenham, BR3 4TF				081-663 3003		
European Trust	6	47 75	47 83	50 88	+0.03	1 66
Far Eastern Tst	6	52.21	53.03	56.41	-0.15	0.88
Smaller Cos	5	129 0	133.7xd	142.2	+0 4	2.97
Smith & Williamson Unit Tst Mgrs (1600)F						
1 Riding House St, London W1A 3AS				071-637 5377		
S & W American ♦	5	261 0	261 6xd	276 7	+2.8	1 09
S & W Capital	5	109 3	109.3	117 1	+0.3	2.05
S & W Cash ♦	0	101 99	101 99	101 99	+0.02	6.59
S & W European	5	105.7	105 8	111 9	+0.2	1.08
S & W Far Eastern	5	105 8	106.9	113 1	+0.2	0.00
S & W Growth	5	117 3	118.8	125.7	+0.6	1 64
S & W Income	5	103.5	104 8	110.8	+0 4	5.59
S & W Magnum	5	115 2	115.2	123.6	+0 3	1.99
S & W Smllr Secs	5	275 1	280.9	297 2	+1 3	0 77
S & W Thoroughbred	5	132.9	132.9	142 7	+0 3	1 81
Societe Generale Touche Remnant (1200)F						
Mermaid Hse, 2 Puddle Dock, EC4V 3AT				071-248 1250		
American Gwth	5¼	78 10	78.10	83 52	+0.21	0
Eur Sp Sits Acc	5¼	40 99	40 99	43 54	+0.02	0
Eur Sp Sits Inc	5¼	38 71	38 71	41.12	+0.01	0
Far East Opps Inc	5¼	26 38	26 38xd	28 41	-0.18	0
Far East Opps Acc	5¼	27.10	27.10	29.19	-0 19	0
General Growth	5¼	92 60	92 60xd	99 62	+0 03	2.57
General Growth Acc	5¼	94 94	94 94	102 10	+0 20	2.54

	Init Charge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Whittingdale Unit Tst Mgmt Ltd (0830)F						
2 Honey Lane, London EC2V 8BT				071-600 0462		
Challenger	2¼	87.73	87.73	89 77	-0.17	0.00
Short Dad Gilt	1¼	107.5	107.5	108.9		4 47
U S. Govmnt Bond	1¼	0.7067	0 7067	0 7160	+0.0006	0.00
Gilt Income	4	50 75	50 75xd	52 90	+0 02	8.69
Gilt Growth	4	63.12	63 12xd	65 69	-0 05	0 00
City Reserve	0	51 96	51 96xd	51.96	...	6 92
Woolwich Unit Trust Managers Ltd (1700)H						
1 White Oak Square, Swanley BR8 7AG				0705 388046		
Stockmarket Fd F	5	63 34	63.55	67 60	+0 02	2 34

OTHER UK UNIT TRUSTS

	Bid Price	Offer Price	+ or -	Yield Gross
Baillie Gifford & Co Ltd				
Int'l Exps Jan 6	631.5	651.2		1 07
Baring Investment Mngmt Ltd				
155 Bishopsgate, London EC2M 3XY				
071 214 1050 (general enquiries) 071 214 1004 (dealing)				
Charitable Funds				
UK Growth & Income	51 17	53 03	-0 82	4 9
Income Plus	48.59	49.56	-0.12	7 5
James Capel Fund Managers Ltd				
European Exempt	£100 455	101.533xd	+0 336	3.29
Japanese Exempt	£98.3772	99 7698	-0.5072	-
Managed Exempt	£121 717	128 603xd	+0.268	3.81
North American Exempt	£96.4882	97.7978	-0.3725	1.23
Pacific Exempt	£99 15	101.794	-0.721	-
Cent. Bd. of Fin. of Church of England‡‡				
2 Fore Street, London EC2Y 5AQ			071-588 1815	
Inv Fund Dec 31	582.50	586.60	- -	5.08
Fxd Int Sec Dec 31	151.95	152 70	- -	9.50
Deposit Fund: See Money Market Trust Funds.				
Chariaco/Charishare‡‡ (1000)F				

FT MANAGED FUNDS SERVICE

● Current Unit Trust prices are available from FT Cityline For further details call (071) 925 2128

Prolific Life & Pensions Ltd

Property Life Assurance Ltd

Providence Capital Life Assc. Co Ltd

Provident Life Assoc Ltd

Provident Mutual Life Assc. Assn.

Prudential Assurance Co

Prudential Individual Life Funds

Prudential Individual Pension Funds

Reliance Mutual

J Rothschild Assurance PLC

Royal Heritage Life Assurance Ltd

Royal Life Insurance Ltd

Royal Liver Assurance

Save & Prosper Group

Scottish Amicable

Scottish Equitable Life Assce. Soc.

Scottish Life Investments

Scottish Mutual Assurance plc

Scottish Provident Institution

Scottish Widows' Group

Skandia Life Assurance Co Ltd

Standard Life Assurance Company

Sun Alliance Group

Sun Life Unit Assurance Ltd

Swiss Life (UK) PLC

TSB Life Ltd

Target Life Assurance Co Ltd

Teachers' Assurance Company Ltd

Templeton Life Assurance Limited

Tunbridge Wells Equitable

Wesleyan Assurance Society

Windsor Life Assur Co Ltd

Woolwich Life Assurance Co Ltd

Zurich Life Assurance Co Ltd

OFFSHORE INSURANCES

AXA Equity & Law Intl Life Assce Co

Albany International Assurance Ltd

CMI Insurance Co Ltd

CMI Insurance Co Ltd-Contd.

Eagle Star Intl Life

Equitable Life (International)

Fidelity Money Funds

Finance International Ltd

Hansard International Ltd

Hafnia Prolific International

Isle of Man Assurance Ltd

NEL Britannia International Ltd

PanEuroLife

Providence Capital International Ltd

Royal Life Intl. Ltd

Royal Skandia Life Assurance Ltd

Sun Alliance International Life

Target International Group

MANAGEMENT SERVICES

Bain Clarkson Asset Management

C F S Financial Mngmt

Capital Trust Financial Management

Close de Vere PLC

ECU Terminvest Plc

Fairmount Financial Services Ltd

Foster & Braithwaite Ltd

Hostminster Financial Services (Pty) Ltd

IPS Capital Management PLC

Independent Financial Group PLC

Johnson Fry Asset Managers Plc

Knight Williams & Company Ltd

Macartney & Dowie Invest Mngt Plc

Northern Bilge & Partners

Pendleton May Financial Services Ltd

Rockbrough Financial Management Ltd

Charles Stanley & Co Ltd

J. D. Ward Financial Services Ltd

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

Lloyd George Management

Newport Investment Management

Orion Fund Limited

CANADA (SIB RECOGNISED)

GBC Asset Management

GUERNSEY (SIB RECOGNISED)

AIB Grofund Inv Managers (Guernsey) Ltd

Investment Portfolio Svs (CI) Ltd

Kleinwort Benson Intl Fd Mngt (Guernsey) Ltd

Baring Intl Fd Managers (Guernsey) Ltd

Butterfield Fund Mngrs (Guernsey) Ltd

Equitable International Fund Managers Ltd

Guinness Flight Fd Mngrs (Guernsey) Ltd

Hambros Fd Mgrs (CI) Ltd

Kleinwort Benson Intl Fd Mngrs Ltd

Lazard Fund Mngrs (Channel Islands) Ltd

Lion World Fixed Income Fund

Lloyds Intl Money Market Fund Ltd

M & G (Guernsey) Ltd

Prudential Fund Managers (Guernsey) Ltd

Rothschild Asset Management (CI) Ltd

Royal Bank of Canada Offshore Fd Mgrs Ltd

Sarasin Funds Mngmt (Guernsey) Ltd

Schroder Investment Mngmt (Guernsey) Ltd

GUERNSEY (REGULATED)

ANZ Mngmt Co (Guernsey) Ltd

Adams & Neville Fd Mngt (Guernsey) Ltd

Arab Bank Fund Managers (Guernsey) Ltd

Bankers Global Investment Fund Ltd

Credit Suisse Asset Mngmt (Guernsey) Ltd

Gartmore Fund Managers (Guernsey) Ltd

Hambros Fund Managers (CI) Ltd

Hartsville Fund Managers (Guernsey) Ltd

Havelet Threadneedle Mngmt Ltd

Henderson Admin. (Guernsey) Ltd

Merrill Lynch Guernsey

Nikko Capital Mngt (Guernsey) Ltd

Quilter International Mngt (Guernsey) Ltd

Rothschild Asset Management (CI) Ltd

Schroder Investment Mngmt (Guernsey) Ltd

U.S. Treasury Securities Fund Ltd

Rudolf Wolff Capital Management Ltd

Yamaichi Capital Mangt (Guernsey) Ltd

IRELAND (SIB RECOGNISED)

Federated International Funds Plc

GAM Fund Management Ltd

GT Asset Management (Ireland) Ltd

Hafnia Prolific International Mngmt Ltd

Morgan Grenfell Investment Funds Ltd

Swiss Life Investment Fund (a)

IRELAND (REGULATED)

Bank of Ireland Unit Managers Ltd

Baring International Fd Mngrs (Ireland) Ltd

Baring Mutual Fund Mngmt (Ireland) Ltd

Genesis Portfolio Managers Limited

Hambros Fund Mngrs (Ireland) Ltd

Irish Life International Fd Mngrs Ltd

Morgan Grenfell Fund Mngrs (Ireland) Ltd

Paine Webber Offshore Funds Plc

J. Rothschild International Assce plc

Sanwa International (Ireland) Plc

ISLE OF MAN (SIB RECOGNISED)

AXA Equity & Law Intl Fund Mngrs

Allied Dunbar Intl Fund Mngrs (IOM)

Asset Global Funds Ltd

CMI Fund Managers (IoM)

Gartmore Fund Managers (IoM) Ltd

Leopold Joseph Fund Mgrs (IoM) Ltd

Mercury Fund Managers IoM Ltd

Sun Life Management (IoM) Ltd

Unibank Scandinavian Fund Ltd

ISLE OF MAN (REGULATED)

ATC Fund Management (IM) Ltd

AXA Equity & Law Intl Fund Mgr

Appleton Financial Advisors Ltd

CMI Fund Managers (IOM)

City Financial Admin (IoM) Ltd

Duncan Lawrie Inv. Mgt. Ltd

Gartmore Fund Managers (IoM) Ltd

هكذا من الأصل

FT MANAGED FUNDS SERVICE

• Current Unit Trust prices are available from FT Cityline. For further details call (071) 925 2128.

	Bid Price	Offer Price	+ or -	Yield Gross
John Govett Management (IoM) Ltd				
Dlr Gested Cur NAV Jan 15		$16.72		-
Paragon Pfeo Red Jan 4		£9.99		-
Paragon Stlg Red Jan 4		€11.52		-
SE Asian Wrt NAV Jan 14		$9.81		-
Govett Mngd Fun Jan 15	£14.15	15.47		-
Govett Mngd Fnrs Jan 15	$9.99	10.93		-
New Horizons Inc Jan 14		$15.76		-
New Horizons Inc Wrs Jan 14		$7.89		-
Dlr Gested Bd Jan 15		$7.30		-
IBI Global Funds Limited				
Intl Stlg Gwth	£20.59	21.68		-
Intl $US Gwth	$17.75	18.70		-
High Income Gilt	£26.06	27.02		-
International Equity	£20.84	21.95		-
International Bond	£22.54	23.37		-
Managed Currency	£27.64	27.93		-
Sterling Currency	£26.63	26.91		-
US$ Currency	$37.82	38.21		-
Irish £ Currency	I£15.39	15.56		-
R & H Fund Managers Ltd				
LFM Sterling Fd	£11.04	11.51		-
B.F. Offshore Inc Fd Ltd	£11.45	11.94		-
Target International (Isle of Man) Ltd				
IMC Offshore Fd	£9.45	10.23		-
Nelson Miles W/W S/S	£10.24	10.49		-

JERSEY (SIB RECOGNISED)

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
AIB Fund Managers (CI) Ltd						
PO Box 468 St Helier Jersey						0534 36633
AIB Currency Funds Ltd						
Intl Managed Bond	5		IE-21.1930	21.1412		-
Managed Capital Bd	5		IE-21.4092	21.4340		-
AIB Grofund Currency Fund Limited						
Stlg Mngd Currency	5		£-	11.0017		-
Sterling Currency Fd	5		£-	10.6115		-

LUXEMBOURG (SIB RECOGNISED)

JERSEY (REGULATED)(**)

LUXEMBOURG (REGULATED)(**)

SWITZERLAND (SIB RECOGNISED)

OTHER OFFSHORE FUNDS

MANAGED FUNDS NOTES

CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGES

Slight uncertainty on dollar

THE DOLLAR slipped by exactly 2 pfennigs against the D-Mark in European trading yesterday after Bundesbank officials dashed hopes of another near-term cut in German interest rates, *writes James Blitz.*

At the end of last week, the dollar had enjoyed a rally up to DM1.6355, as some dealers started to think that the Bundesbank could cut short-term rates at its council meeting on Thursday. There has been speculation that the Bundesbank could cut its officially-posted ceiling rate, the Lombard, by up to 50 basis points this week.

However, Mr Hans Tietmeyer, the Bundesbank's No.2, helped to quash such thoughts yesterday, by saying that inflation was well above what was acceptable over the longer term.

His remarks followed comments from Mr Otmar Issing, the Bundesbank's chief economist, who said that inflationary dangers had not been averted, in spite of the weakening economy.

The dollar's fall through a key support level of DM1.6200 was probably due to technical factors, too. The currency has risen ten pfennigs since December 18, and a retraction was to be expected as dealers took profits. The US currency closed in London at DM1.6155.

Mr David Cocker, chief economist of Chemical Bank, believes that the dollar will go higher, reaching DM1.85 this year. "The dollar's rise will accelerate," he says, "as interest rate levels come together on a world-wide basis." He believes this convergence is certain to be led by cuts in German interest rates.

However, Mr Jim O'Neill, head of research at Swiss Banking Corporation in London, believes the dollar rally could peter out from here. "We are into the third week of the year," he says, "and the dollar has not made as much progress as had been expected. A lot of people will review their scenarios."

Mr O'Neill believes that the US economic upturn is not as strong as anticipated, and there is a lingering possibility of another cut in short-dated US interest rates.

The huge trade budget and deficits in the US also set limits on how much the US can raise rates. Mr O'Neill believes that, at best, the dollar will go no higher than DM1.70 this year.

Tensions inside the European exchange rate mechanism continued to subside, and, for the first time this year, every ERM currency was within 50 per cent of divergence from its central rate against the European Currency Unit (Ecu).

The comments from the Bundesbank weakened the French franc yesterday, and it closed at FFr3.385 to the D-Mark, more than ½ a centime weaker on the day. Pressures on the Irish punt eased. Irish interbank offered rates were quoted at between 19 and 23 per cent compared with Friday's levels of 32 to 40 per cent.

£ IN NEW YORK

Jan 18	Latest	Previous Close
£ Spot	1.5510-1.5520	1.5305 1.5315
1 month	0.52-0.51pm	0.53 0.51pm
3 months	1.38-1.36pm	1.38 1.35pm
12 months	4.00-3.90pm	3.92 3.85pm

Forward premiums and discounts apply to the US dollar

STERLING INDEX

	Jan 18	Previous
8.30 am	81.5	81.2
9.00 am	81.5	81.1
10.00 am	81.4	81.1
11.00 am	81.5	81.3
Noon	81.6	81.3
1.00 pm	81.5	81.3
2.00 pm	81.6	81.2
3.00 pm	81.5	81.2
4.00 pm	81.6	81.2

CURRENCY RATES

Jan 18	Bank ‡ rate %	Special * Drawing Rights	European † Currency Unit
Sterling	–	0.892876	0.782351
U S Dollar	3.00	1.37369	1.20873
Canadian $	7.27	1.76135	1.54476
Austrian Sch	8.25	15.6972	13.8158
Belgian Franc	7.75	45.9225	40.4351
Danish Krone	9.50	8.63021	7.55880
D-Mark	8.25	2.23197	1.96358
Dutch Guilder	7.75	2.50726	2.20751
French Franc	10	7.54362	6.63956
Italian Lira	12.00	2052.06	1801.76
Japanese Yen	3.25	N/A	151.998
Norway Krone	–	9.45511	8.28223
Spanish Peseta	–	158.169	139.169
Swedish Krona	11.50	9.92697	8.78204
Swiss Franc	5.50	2.04199	1.79642
Greek Drach	19	N/A	262.379
Irish Punt	–	N/A	0.739150

‡ Bank rate refers to central bank discount rates. These are not quoted by the UK, Spain and Ireland. † European Commission Calculations. * All SDR rates are for Jan.15

CURRENCY MOVEMENTS

Jan 18	Bank of England Index	Morgan** Guaranty Changes %
Sterling	81.6	–29.35
U.S. Dollar	[illegible]	[illegible]

Morgan Guaranty changes: average 1980-1982=100. Bank of England Index (Base Average 1985=100). **Rates are for Jan.15

OTHER CURRENCIES

Jan 18	£	$
[illegible]	[illegible]	[illegible]

*Floating rate. Iran Official rate:£101.25 $66.70

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu Central Rates	Currency Amounts Against Ecu Jan 18	% Change from Central Rate	% Spread vs Weakest Currency	Divergence Indicator
Spanish Peseta	143.386	139.169	–2.94	3.64	47
Portuguese Escudo	182.194	176.898	–2.91	3.61	44
Belgian Franc	40.6304	40.4351	–0.48	1.08	15
Dutch Guilder	2.21958	2.20751	–0.54	1.14	18
D-Mark	1.96992	1.96358	–0.32	0.92	9
French Franc	6.60683	6.63956	0.50	0.10	–38
Irish Punt	0.735334	0.739150	0.52	0.08	–31
Danish Krone	7.51410	7.55880	0.59	0.00	–35

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu: a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate.
(17/9) Sterling and Italian Lira suspended from ERM. Adjustment calculated by Financial Times.

POUND SPOT - FORWARD AGAINST THE POUND

Jan 18	Day's spread	Close	One month	% p.a.	Three months	% p.a.
US	1.5350 - 1.5505	1.5490 - 1.5500	0.55-0.53cpm	4.18	1.37-1.34pm	3.50
Canada	1.9660 - 1.9805	1.9765 - 1.9775	0.12-0.02cpm	0.42	0.17-0.06pm	0.23
Netherlands	2.8170 - 2.8270	2.8125 - 2.8225	¼-½cdis	–1.60	⅝-⅞dis	–1.06
Belgium	51.60 - 51.75	51.60 - 51.70	33-7cdis	–4.65	11-21dis	–1.24
Denmark	9.6460 - 9.6920	9.6500 - 9.6600	3¼-7oredis	–6.68	10½-13¼dis	–5.31
Ireland	0.9430 - 0.9495	0.9430 - 0.9440	1.90-1.05cpm	18.76	3.65-2.00pm	11.98
Germany	2.5000 - 2.5160	2.5000 - 2.5050	¼-⅜pfdis	–1.50	⅜-1dis	–1.50
Portugal	225.05 - 226.80	225.80 - 226.80	146-157cdis	–8.03	396-423dis	–7.24
Spain	177.00 - 178.15	177.30 - 177.60	125-136cdis	–8.83	333-352dis	–7.72
Italy	2294.00 - 2310.00	2309.00 - 2310.00	10-12liredis	–5.72	31-34dis	–5.63
Norway	10.5625 - 10.6070	10.5625 - 10.5725	2⅛-3⅝oredis	–3.41	7⅝-9⅛dis	–3.22
France	8.4675 - 8.5065	8.4675 - 8.4775	3¼-4cdis	–5.13	9-10dis	–4.49
Sweden	11.1560 - 11.2280	11.1975 - 11.2075	2⅜-4¼oredis	–3.68	6¾-8⅝dis	–2.74
Japan	192.75 - 195.25	194.25 - 195.25	⅝-½ypm	3.47	1⅝-1⅜pm	3.08
Austria	17.62 - 17.69	17.66 - 17.69	1¼-2¼grodis	–1.53	5¼-7¼dis	–1.46
Switzerland	2.2900 - 2.3010	2.2900 - 2.3000	⅜-¼cpm	1.31	¾-½pm	1.09
Ecu	1.2750 - 1.2775	1.2750 - 1.2760	0.30-0.35cdis	–3.06	0.90-0.99dis	–2.96

Commercial rates taken towards the end of London trading. Six-month forward dollar 2.43-2.38pm . 12 Month 4.00-3.90pm.

DOLLAR SPOT - FORWARD AGAINST THE DOLLAR

Jan 18	Day's spread	Close	One month	% p.a.	Three months	% p.a.
UK†	1.5350 - 1.5505	1.5490 - 1.5500	0.55-0.53cpm	4.18	1.37-1.34pm	3.50
Ireland†	1.6135 - 1.6430	1.6395 - 1.6405	3.30-2.00cpm	19.39	6.20-4.70pm	13.29
Canada	1.2755 - 1.2825	1.2760 - 1.2770	0.38-0.45cdis	–3.90	1.03-1.15dis	–3.42
Netherlands	1.8175 - 1.8380	1.8180 - 1.8190	0.87-0.90cdis	–5.84	2.15-2.20dis	–4.78
Belgium	33.30 - 33.65	33.30 - 33.40	15.00-17.00cdis	–5.76	39.00-42.00dis	–4.86
Denmark	6.2255 - 6.3100	6.2275 - 6.2325	4.00-7.00oredis	–10.59	11.00-16.50dis	–8.83
Germany	1.6140 - 1.6355	1.6150 - 1.6160	0.81-0.83pfdis	–6.09	2.05-2.08dis	–5.11
Portugal	145.80 - 146.30	145.80 - 145.90	148-153cdis	–12.38	393-408dis	–10.98
Spain	114.55 - 115.05	114.60 - 114.70	120-123cdis	–12.72	320-325dis	–11.25
Italy	1482.00 - 1499.00	1490.25 - 1490.75	12.80-13.80liredis	–10.71	33.00-36.00dis	–9.26
Norway	6.8175 - 6.9030	6.8175 - 6.8225	4.15-4.75oredis	–7.83	11.20-12.30dis	–6.89
France	5.4650 - 5.5250	5.4650 - 5.4700	4.00-4.25cdis	–9.05	10.25-10.65dis	–7.65
Sweden	7.2220 - 7.2855	7.2275 - 7.2325	4.30-4.90oredis	–7.63	11.20-12.30dis	–6.50
Japan	125.40 - 125.85	125.60 - 125.70	0.06-0.07ydis	–0.62	0.11-0.12dis	–0.37
Austria	11.3940 - 11.5025	11.3950 - 11.4000	5.34-5.74grodis	–5.83	13.85-14.95dis	–5.05
Switzerland	1.4790 - 1.4960	1.4800 - 1.4810	0.32-0.36cdis	–2.76	0.87-0.94dis	–2.45
Ecu†	1.2025 - 1.2150	1.2130 - 1.2140	0.77-0.72cpm	7.37	2.01-1.95pm	6.53

Commercial rates taken towards the end of London trading. † UK, Ireland and ECU are quoted in US currency. Forward premiums and discounts apply to the US dollar and not to the individual currency.

EURO-CURRENCY INTEREST RATES

Jan 18	Short term	7 Days notice	One Month	Three Months	Six Months	One Year
Sterling	6¾ - 6½	6¾ - 6⅝	7 - 6¾	7 - 6¾	6⅞ - 6¾	6⅝ - 6½
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Long term Eurodollars: two years 4¼-4⅛ per cent; three years 5¼-5⅛ per cent; four years 5⅞-5¾ per cent; five years 6¼-6⅛ per cent nominal. Short term rates are call for US Dollar and Japanese Yen; others, two days' notice.

EXCHANGE CROSS RATES

Jan 18	£	$	DM	Yen	F Fr.	S Fr.	N Fl.	Lira	C$	B Fr.	Pta	Ecu
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Yen per 1,000: French Fr. per 10: Lira per 1,000: Belgian Fr. per 100: Peseta per 100.

FINANCIAL FUTURES AND OPTIONS

LIFFE LONG GILT FUTURES OPTIONS; LIFFE US TREASURY BOND FUTURES OPTIONS; LIFFE BUND FUTURES OPTIONS; LIFFE EUROMARK OPTIONS; LIFFE ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS; LIFFE SHORT STERLING OPTIONS; LIFFE EURO SWISS FRANC OPTIONS

[illegible]

LONDON (LIFFE)

9% NOTIONAL BRITISH GILT; US TREASURY BONDS 8%; 6% NOTIONAL GERMAN GOVT. BOND; 6% NOTIONAL LONG TERM JAPANESE GOVT. BOND; 12% NOTIONAL ITALIAN GOVT. BOND (BTP); THREE MONTH STERLING; THREE MONTH EURODOLLAR; THREE MONTH EUROMARK; THREE MONTH ECU; THREE MONTH EURO SWISS FRANC; THREE MONTH EUROLIRA INT. RATE; FT-SE 100 INDEX

[illegible]

* Contracts traded on APT. Closing prices shown.

POUND - DOLLAR

FT FOREIGN EXCHANGE RATES

Spot	1-mth.	3-mth.	6-mth.	12-mth.
1.5495	1.5441	1.5359	1.5254	1.5100

CHICAGO

U.S. TREASURY BONDS (CBT) 8%; U.S. TREASURY BILLS (IMM); JAPANESE YEN (IMM); DEUTSCHE MARK (IMM); THREE-MONTH EURODOLLAR (IMM); BRITISH POUND (IMM); SWISS FRANC (IMM); STANDARD & POORS 500 INDEX

[illegible]

PHILADELPHIA SE £/$ OPTIONS

[illegible]

PARIS

7 to 10 YEAR 10% NOTIONAL FRENCH BOND (MATIF) FUTURES; THREE-MONTH PIBOR FUTURES (MATIF) (Paris interbank offered rate); CAC-40 FUTURES (MATIF) Stock Index; ECU BOND (MATIF); OPTION ON LONG-TERM FRENCH BOND (MATIF)

[illegible]

BASE LENDING RATES

	%
Adam & Company	7
Allied Trust Bank	7
AIB Bank	7
●Henry Ansbacher	7
B & C Merchant Bank	13
Bank of Baroda	7
Banco Bilbao Vizcaya	7
Bank of Cyprus	7
Bank of Ireland	7
Bank of India	7
Bank of Scotland	7
Barclays Bank	7
Brit Bk of Mid East	7
●Brown Shipley	7
CL Bank Nederland	7
Citibank NA	7
City Merchants Bank	7
Clydesdale Bank	7
The Co-operative Bank	7
Coutts & Co	7
Credit Lyonnais	7
Cyprus Popular Bank	7
Duncan Lawrie	7
Equatorial Bank plc	7
Exeter Bank Limited	8
Financial & Gen Bank	7
●Robert Fleming & Co	7
Girobank	7
●Guinness Mahon	7
Habib Bank AG Zurich	7
●Hambros Bank	7
Hampshire Trust Plc	13.5
Heritable & Gen Inv Bk	7
●Hill Samuel	7
C. Hoare & Co	7
Hongkong & Shanghai	7
Julian Hodge Bank	7
●Leopold Joseph & Sons	7
Lloyds Bank	7
Meghraj Bank Ltd	7
McDonnell Douglas Bk	7
Midland Bank	7
Mount Banking	7
NatWestminster	7
Northern Bank Ltd	7
Nykredit Mortgage Bnk	7.5
●Rea Brothers	7
Roxburghe Guarantee Corporation	7
●Royal Bk of Scotland	7
●Smith & Williamson Secs	7
Standard Chartered	7
TSB	7
Unibank plc	7
●United Bk of Kuwait	7
Unity Trust Bank Plc	7
Western Trust	7
Whiteaway Laidlaw	7
Yorkshire Bank	7

● Members of British Merchant Banking & Securities Houses Association

MONEY MARKETS

French rates softer

CASH RATES in the French markets closed softer yesterday, even though the Bank of France decided not to alter its officially-posted interest rates, *writes James Blitz.*

The French franc's strong performance against the D-Mark last week had led some dealers to think that France might re-introduce its five-10 day lending window yesterday, and cut the overnight lending rate below the 12 per cent level.

Lingering bearishness in the Bundesbank may have stopped the French authorities taking this decision. Mr Hans Tietmeyer, the Bundesbank Deputy President, said yesterday that the German inflation rate was still far above acceptable levels.

However, the French currency appeared to be unaffected by this comment and continued to hover around the FFr3.38 level to the D-Mark, more than 5 centimes above its floor against the German currency in the European exchange rate mechanism.

French cash rates consequently softened. Three-month money yesterday fell from around 11½ per cent to 11¼ per cent yesterday. French franc futures also progressed slightly, with the March contract closing up 9 basis points on the day at 90.45.

At this level, it still assumes that 3-month money will be at 9.55 per cent by the spring, some 180 basis points below yesterday's level.

Helped by Mr Tietmeyer's comments, Euromark futures fell back yesterday, with the March contract closing at 92.16, some 7 basis points down on the day.

Short-dated rates in the sterling cash market were soft yesterday, in spite of a large shortage of £1.7bn forecast by the Bank of England at the start of operations.

However, most of the shortage was removed in the early round, conditions were easy for most of the day and the overnight lending rate progressively fell from its opening level of 6⅞ per cent. Three-month money closed unchanged, fractionally below the base rate figure of 7 per cent.

At the weekend, Mr Norman Lamont, the UK Chancellor, signalled a cautious approach to further UK interest rate cuts, and this may have been responsible for the 6 basis point cut in the March short sterling contract to a close of 93.43.

One dealer suggested that the market had never been expecting a rate cut, and the only issue of debate now was whether rates would be cut in the March budget by 50 or 100 basis points.

FT LONDON INTERBANK FIXING

(11.00 a.m. Jan.18)	3 months US dollars		6 months US Dollars	
	bid 3¼	offer 3⅜	bid 3⅜	offer 3½

The fixing rates are the arithmetic means rounded to the nearest one-sixteenth, of the bid and offered rates for $10m quoted to the market by five reference banks at 11.00 a.m. each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque Nationale de Paris and Morgan Guaranty Trust.

MONEY RATES

NEW YORK — Treasury Bills and Bonds

[illegible]

Jan 18	Overnight	One Month	Two Months	Three Months	Six Months	Lombard Intervention
Frankfurt	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	9.50
Paris	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Zurich	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Amsterdam	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Tokyo	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Milan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Brussels	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dublin	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

LONDON MONEY RATES

Jan 18	Overnight	7 days notice	One Month	Three Months	Six Months	One Year
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

[illegible]

MONEY MARKET FUNDS

Money Market Trust Funds

Money Market Bank Accounts

[illegible]

NOTES – Gross: Contractual rate of interest payable, not taking account of the deduction of basic rate income tax. Net: After allowing for deduction of basic rate income tax. Gross CAR: Gross rate expressed to allow for interest paid other than once a year. Compounded Annual Rate. Int. Pd: Frequency at which interest is credited to the account.

CROSSWORD

No.8,054 Set by DANTE

ACROSS
1 Party policy won't be one's main interest (8)
5 Temple ornament I'd made wrongly (6)
9 Military informant shows initiative (8)
10 Somehow lost on points – or was robbed? (6)
12 Fly from a ship (5)
13 Bears arms when involved in trouble (9)
14 Crackpots get a hundred times (6)
16 He cuts inside the fold (7)
19 Declared a number were incorrect (7)
21 Sounds coming from fold or stable (6)
23 Coastline irregular in parts (9)
25 Deposit a jacket and hood (5)
26 Tin-opener is cutting into the drink, in truth (6)
27 Is this provided just for dippers and divers? (4,4)
28 A round heavy-bodied port (6)
29 Do we turn switch to produce current? yes (8)

DOWN
1 Funny thing, it's way above what is the best (6)
2 Fire and unload (9)
3 Praises the upper house in speech (5)
4 Uncle is out to get us, that's the heart of the matter (7)
6 Put earth over the seed, say – then pray! (9)
7 Girl was poorly brought up (5)
8 Service makes small cars go (8)
11 Falls in the sea (4)
15 A bloomer he made, being too fond of his image (9)
17 Slow worker causing delay (9)
18 Raised voice in row on river (8)
20 Accomplished fellow with a certain bearing (4)
21 A large number put charge on account (7)
22 Chews a sort of nut (6)
24 Vessel is said to be sailing (5)
25 Chaplain makes home with soldiers (5)

Solution to Puzzle No.8,053

WORLD STOCK MARKETS

CANADA

TORONTO
3 pm January 18

INDICES

	Jan 13	Jan 6
S & P Industrial div. yield	2.59	2.58
S & P Indl. P/E ratio	26.70	26.85

NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Closing price	Change on day
Tucson Elt	10,457,300	2¾	+ ¼
Gen Motors	6,549,800	34½	+ ½
Unisys Corp	5,962,200	12¼	+ ½
West Elec	4,978,300	13¾	- 1
Citicorp	4,664,800	23	+ ¼
Merck	4,052,000	41¾	- ¼
IBM	3,373,100	48½	- ¾
Am T & T	3,313,900	53¼	+ ¾
Glaxo	3,118,000	22¼	+ ½
Coca Cola	3,045,200	43¼	---

TRADING ACTIVITY

† Volume Millions	Jan 15	Jan 14	Jan 13
New York SE	247.350	280.020	245.020
Amex	13.733	19.138	14.798
NASDAQ	250.348	(u)	244.701
NYSE			
Issues Traded	2,427	2,402	2,412
Rises	1,249	1,186	1,091
Falls	599	674	759
Unchanged	579	542	562
New Highs	159	126	79
New Lows	13	19	28

CANADA
TORONTO

	Jan 15	Jan 14	Jan 13	Jan 12	1992/93 HIGH	1992/93 LOW
Metals & Minrls	2764.64	2748.41	2747.17	2800.25	3238.87 (16/1/92)	2529.91 (17/11/92)
Composite	3306.58	3303.80	3298.29	3314.54	3666.00 (16/1/92)	3195.40 (14/10/92)
MONTREAL Portfolio	1746.12	1748.45	1744.42	1749.50	1937.59 (16/1/92)	1663.16 (14/10/92)

Base values of all indices are 100 except NYSE All Common – 50; Standard and Poor's – 10; and Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. (c) Closed. (u) Unavailable. § The DJ Indl. index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows (supplied by Telekurs) represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's).

Euro Top-100 (26/6/90)	884.37	879.35	870.08	862.7

**Saturday January 16: Taiwan Weighted Price: 3362.52, Korea Comp ...
♥ Subject to official recalculation. ‡ Correction.

Base values of all indices are 100 except. Austria Traded, BEL20, HEX ... Overall and DAX – 1,000, JSE Gold – 255.7, JSE 26 Industrials – 264.3 ... (c) Closed. (u) Unavailable.

TOKYO - Most Active Stocks
Monday, 18 January, 1993

	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day
Nippon Steel	2.2m	288	+2	Tsukamoto Shoji	1.5m	640	
Asahi Chem Ind	1.7m	575	-5	Green Cross	1.4m	1,190	
Kelsol Electric	1.7m	724	+1	Iyo Bank	1.4m	739	-1
Sumitomo Chem	1.6m	421	+3	Toshiba Corp	1.2m	607	-7
Akita Bank	1.5m	603	+1	NGK Spark Plug	1.2m	922	+14

3:15 pm January 18

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

[illegible]

Continued on next page

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NYSE COMPOSITE PRICES

Continued from previous page

1992 – 93 High	Low	Stock	Div.	Yld. %	P/ E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
13¾	13⅛	Salomon Br	1.00	7.5		237	13½	13⅜	13⅜	
38¼	36⅝	SalomonInc	0.64	1.7	13	1610	37⅛	d36⅝	37⅛	-⅛
24⅛	23¼	SanDgo G&E	1.44	6.0	14	320	u24⅞	24	24⅛	+⅛
3⅞	3½	SantaFeEDu	0.40	11.0	60	33	u3⅞	3⅝	3⅝	
9⅜	7¾	SantaFeERs	0.16	1.8	887	109	9	8⅞	8⅞	-⅛
37⅛	35¾	SantaFePac	2.80	7.6	13	68	36⅝	36½	36⅝	
14⅝	12¼	SantaFeSth	0.10	0.7	35	3009	14¼	13⅞	14	
30⅛	27½	Sara Lee	0.14	0.5	21	2718	28½	28	28⅛	-⅛
41⅛	40⅛	Scana Corp	2.68	6.5	14	126	u41⅛	40⅞	41	-⅛
44¼	43	Scecorp	2.80	6.4	13	521	43¾	43½	43⅝	-⅛
38⅞	31½	SchererRP			101	478	34⅛	33½	33½	
63⅞	57	SchenngPl	1.56	2.7	16	4190	58¼	57½	57⅞	-⅛
57⅝	56⅜	Sch'berger	1.20	2.1	16	3001	56⅞	55⅞	55⅞	-⅞
31¾	24⅞	Schwab(C)	0.24	0.7	17	5044	u32¾	31⅝	32⅛	-1
6⅜	5⅞	Schwitzer			54	14	6⅛	6	6	+⅛
27¾	24	ScientAtln	0.08	0.3	46	2762	27⅛	26⅞	26⅞	
10⅛	9⅛	Scotman	0.10	1.0	83	29	10	9⅞	10	-⅛
36¾	33¾	ScottPaper x	0.80	2.3	71	1103	35¼	34¼	35¼	-⅛
15¼	14¼	ScuddrNAsF	0.65	3.6		74	u15¼	15	15¼	+¾
8	7½	ScuddrNEuF	0.34	4.2		438	u8⅛	8	8	
21⅞	18	Sea Contrs	0.45	2.1	12	57	21⅛	20⅞	21	
15¾	15	SeaC1.4625	1.46	9.7		21	15⅛	d15	15	-½
25⅝	24½	Seagram Co	0.56	2.2	13	3614	25½	25⅛	25⅛	
31¼	29¾	Seagull En			82	217	30⅝	30⅞	30⅜	+⅛
25⅝	24⅝	Sealed Air			34	z100	25⅜	25⅛	25⅜	-⅛
18¼	16¾	SPX Corp	0.40	2.3	13	383	17½	17¼	17¼	
48⅛	43⅞	Sears Roeb	2.00	4.2	41	3007	47¼	46⅞	47⅛	-¼
13⅛	12⅝	Seligm Sel	0.86	6.6		12	13	12⅞	13	-¼
33	31	Sensormat	0.30	0.9	27	562	u33¼	32½	32⅝	+⅛
32⅞	31¼	Sequa A	0.60	1.9	24	38	31⅞	31¼	31⅞	-¼
34	32	Sequa B	0.50	1.6	16	35	31⅞	d31⅝	31⅝	+¼
19⅛	18⅛	ServiceCp! x	0.40	2.1	17	672	18⅞	18⅝	18⅝	-⅜
28¼	27	Servicemr x	1.32	4.7	11	86	28	27⅝	28	
[illegible]										

- X - Y - Z -

1992 – 93 High	Low	Stock	Div.	Yld. %	P/ E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
86¾	79¼	Xerox	3.00	3.6	19	5680	u87½	84¼	84½	-2⅛
53⅛	53	Xerox4.125				z100	u53⅛	53⅛	52	-1⅛
44⅛	24⅞	Xtra 1.94	1.94	4.4		29	u44⅛	44⅛	44⅛	
67⅝	62½	Xtra Corp	0.80	1.2	18	388	u69	67⅞	68½	+1⅛
30⅛	29⅜	Yankee Egy	1.66	5.5	13	11	30	29⅞	30	+⅛
13/16	⅞	Zapata			43	62	u13/16	⅞	⅞	-1/16
6¼	5⅞	ZenithElec			2	124	6⅛	6	6	-⅛
20¼	19⅝	Zenith Nat	1.00	4.7	10	316	u21⅛	21	21⅛	+⅛
7	6½	Zenix Inc x	0.82	11.9		41	u7	6⅞	6⅞	-⅛
14¼	13¾	Zero Corp	0.40	2.9	21	82	14	d13¾	13¾	-⅛
40⅛	38	Zurn Ind	0.88	2.2	44	85	39½	39¼	39¼	
13⅛	12¼	Zweig Fund x	1.44	11.1		194	u13⅛	13	13	
10¼	9⅞	Zweig Totl	0.96	9.4		369	u10¼	10⅛	10¼	

Price data supplied by Telekurs.

Yearly highs and lows reflect the period from Jan 1, excluding the latest trading day. Where a split or stock dividend amounting to 25 percent or more has been paid, the year's high-only range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Sales figures are unofficial.

a-dividend also xtra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls-sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

AMEX COMPOSITE PRICES

3 pm January 18

Stock	Div.	P/ E	Sls 100s	High	Low	Close	Chng
Pegasus G	0.10	26	331	12⅞	d12⅝	12⅝	-¼
Perini	0.80	17	52	16	17⅝	17⅞	+½
Pet H&P	1.14	12	2	17½	17½	17¼	+¼
[illegible]							

NASDAQ NATIONAL MARKET

3 pm January 18

Stock	Div.	P/ E	Sls 100s	High	Low	Last	Chng
[illegible]							

AMERICA

Dow steady amid worries on Iraq raid

Wall Street

IN spite of the Gulf crisis, US share prices were mostly unchanged yesterday in trading that was quieter than usual because of the Martin Luther King Day holiday, *writes Patrick Harverson in New York.*

At 1 pm, the Dow Jones Industrial Average was up 0.54 at 3,271.66. The more broadly based Standard & Poor's 500 was down 0.71 at 436.44, while the Amex composite was up 0.23 at 403.88, and the Nasdaq composite 1.08 lower at 696.26. Trading volume on the NYSE was 115m shares by 1 pm.

The market opened in a cautious mood with investors and dealers unsettled by the latest attack by US and allied forces on strategic military targets in Iraq. The renewal of hostilities has upset the market, which had thought that late January would be a period for concentrating on fourth quarter corporate results and a relatively smooth handover of power between the outgoing Republican and incoming Democratic administrations.

Among individual stocks, BankAmerica jumped $1⅞ to $49¼ on reports that the West Coast banking group was close to selling as much as $2bn in bad real estate loans and properties to Morgan Stanley Realty Fund.

The news, which was regarded as an indication that the depressed US property market may be turning around, helped other banks with big property exposures, including Citicorp, up $⅛ at $23½ and Chase Manhattan, $⅜ firmer at $29¾.

Tucson Electric Power was the day's most active stock, rising $⅛ to $2¾ in volume of 2.6m shares as investors continued to be encouraged by last week's completion of a restructuring plan.

Some leading technology stocks ran into profit-taking after last week's big gains. Hewlett-Packard dropped $1¼ to $71⅝, Texas Instruments fell $⅝ to $54½, and Motorola gave up $1 at $120¼.

Boeing rose $¼ to $37½ in volume of almost ½m shares on the news that it had won a $525m contract to supply 12 new 737 jets to Royal Air Maroc, a Moroccan carrier.

On the Nasdaq market, Centocor plummeted $10⅞ to $6⅞ in volume of 10m shares on the news that clinical trials and European sales of the company's lead product, Centoxin, had been suspended after an unusually high number of patients died while taking part in research on the drug.

SAO PAULO'S Bovespa index was down 4.1 per cent in light trading in the early afternoon, quoted 3,721 lower at 85,276 at 1400 local time, as most participants waited for fresh news. Brokers said that investors were anxious over the Brazilian senate's vote today on a long-delayed port bill, which will propose the privatisation of services and deregulation of the labour market.

Canada

TORONTO slipped marginally at midday with the TSE-300 index falling 9.9 to 3,296 in light volume of 15.3m shares valued at C$134m. Advances led declines by 217 to 203 with 255 unchanged. TransCanada, downgraded to a hold from a buy by Nesbitt Thomson, slipped C$½ to C$16¾.

SOUTH AFRICA

INDUSTRIAL shares were generally firmer in low volume and the index closed 15 higher at 4,573. The overall index rose 3 to 3,418, while golds slipped 5 to 784 on a weaker bullion price. Barlow Rand lost 25 cents to R46 after warning that first-quarter earnings might be below the equivalent 1992 period.

EUROPE

German rate cut hopes move Frankfurt, Zurich

BOURSES had another run yesterday at the frequently explored prospect of a German interest rate cut, Frankfurt rising and Zurich subsiding in consequence, *writes Our Markets Staff.*

FRANKFURT saw its highest close for nearly four months, the DAX index ending 28.58, or 1.85 per cent higher at 1,573.13, its best since September 21. Turnover climbed from DM5.2bn to DM6.2bn.

Technical and fundamental reasons were put forward for the rise, in addition to the initiative by traders who saw the possibility of a short term gain on the market, both on the interest rate theme and after the improvement in sentiment delivered by Siemens's better than expected figures last Thursday.

Traders said that there was short-covering after Friday's stock options expirations and Allianz, frequently volatile in this connection, put on DM63 to DM2,057. Buying was also encouraged by the convincing DAX break through 1,560 and some illiquid stocks – notably the construction group, Hochtief, up DM55 to DM978 – exaggerated the underlying strength of demand.

Among stocks which appeared on various brokers' buy lists last Friday, Daimler ended DM13.50 higher at DM564.00, BMW and Volkswagen keeping it company with gains of DM10 and DM7.50, to DM499 and DM276 respectively. In chemicals, Hoechst extended its recent return to relative strength with a rise of DM8.40 to DM255.80.

PARIS started the week strongly with activity noted in the finance and construction sectors. The CAC-40 index closed 10.46 ahead at 1,837.54 in turnover of some FFr2.8bn.

Among the financials, Suez gained FFr9.20 to FFr278.30, Paribas put on FFr4.30 to FFr394.80 and Société Générale improved FFr1 to FFr603 as investors continued to look forward to lower interest rates.

Building stocks were also busy on expectations that infrastructure spending would be increased this year, a view partly borne out by news that the government planned to set aside FFr11.5bn for motorway construction in 1993. Bouygues, which stands to benefit, advanced FFr13 to FFr589.

Alcatel rose FFr6 to FFr657 on news that it had won two contracts totalling FFr700m for telecommunications in Thailand and Pakistan.

AMSTERDAM featured Daf which fell 15 per cent on weekend reports in the local press which again highlighted the company's financial difficulties. The group's shares closed Fl 1.25 lower at Fl 7.05 but off the day's low of Fl 6.60. The CBS Tendency index closed 0.7 higher at 98.4, helped by a strong bond market.

The publishing sector built on last week's gains with Wolters Kluwer another Fl 1.40 ahead at Fl 86.60 and Elsevier up Fl 1.00 at Fl 124.30. Among financials, ABN Amro and ING both gained 40 cents to Fl 52.70 and Fl 57.60 respectively.

ZURICH succumbed to profit taking in blue chips which left the SMI index down 16.4 at 2,084.6 with almost half the decline coming in the final 15 minutes of trading.

The consolidation also reflects shifts in investment into other European bourses, particularly Germany, following the Swiss rally which began in early December.

Bank stocks slipped with Union Bank down SFr4 to SFr885 and SBC easing SFr6 to SFr313. Concern that Nestlé may soon announce a rights issue contributed to a SFr20 decline to SFr1,070.

MILAN turned in another strong performance on the first day of the new trading account with investors encouraged by the approval for a referendum on constitutional reform and further consideration of the new fiscal incentives for the stock market.

The Comit index rose 6.31 to 484.93 in hefty turnover which proved too much for the telematic continuous trading board, which ceased to operate an hour before the official close.

Industrials led the advance with Fiat up by L151 to L4,390 before a further rally to L4,460 in after-hours trading.

Telecommunications were also firm with Stet adding to Friday's advance. The shares rose by L8 to L2,028, and L2,120 in after-hours trading.

BRUSSELS saw volatile trading in Arbed which rose to the day's high of BFr2,140 after breaching the BFr1,900 resistance level before closing up BFr135 at BFr1,995. The Bel-20 index lost 3.96 to 1,140.59 in turnover of BFr1.2bn.

COPENHAGEN welcomed reports that a new government would be formed soon and the KFX index rose 3.66 or 4.8 per cent to 79.63 in turnover of DKr359m.

STOCKHOLM saw strong activity in the banking sector help lift the Affärsvärlden General index by 6.8 to 933.8 in turnover of SKr678m.

Among the banks, Handelsbanken's A shares gained SKr6.50 to SKr43.50. OSLO also firmed slightly on stronger oil prices and the composite index finished 1.49 higher at 386.52 in turnover of NKr152.6m.

VIENNA improved with the ATX index closing 7.02 higher at 719.08. Leykam, the paper manufacturer, rose Sch9 to Sch231 on news late last week that it had established a joint venture in the Czech republic.

ISTANBUL declined in late trading and the 75-market index closed 68.67 lower at 4,017.16.

FT-SE Actuaries Share Indices — THE EUROPEAN SERIES

January 18 Hourly changes	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close
FT-SE Eurotrack 100	1093.97	1092.79	1092.27	1091.23	1094.97	1096.77	1096.99	1097.15
FT-SE Eurotrack 200	1165.27	1163.28	1163.36	1162.80	1163.68	1166.79	1165.98	1166.50

	Jan 15	Jan 14	Jan 13	Jan 12	Jan 11
FT-SE Eurotrack 100	1089.58	1076.93	1063.02	1071.43	1069.87
FT-SE Eurotrack 200	1160.32	1154.08	1144.79	1152.84	1155.95

Base value 1000 (26/10/90) High/day: 100 - 1097.25; 200 - 1167.02 Low/day: 100 - 1089.92 200 - 1160.32.

ASIA PACIFIC

Nikkei improves in wake of government bonds rally

Tokyo

A RALLY in government bonds boosted the stock futures market, and share prices closed higher with the support of arbitrage buying, *writes Emiko Terazono in Tokyo.*

The Nikkei average ended 101.64 up at 16,617.24 on index-linked buying. Purchases by public funds supported the index in early trading; it fell later to a day's low of 16,502.26 on selling by investment trusts, but registered a high of 16,625.26 just before the close.

Volume decreased to 140m shares from Thursday's 170m. Traders said investors remained on the sidelines after Friday's national holiday. In spite of the rise in the Nikkei, other indicators reflected underlying weakness. Declines outnumbered advances by 486 to 379, with 218 issues unchanged, and the Topix index of all first section stocks edged down 0.84 to 1,267.07. In London, the ISE/Nikkei 50 index was off 0.11 at 1,032.05.

Reports of the US missile attack on Iraq had little impact on the Tokyo market. "Japanese shares will not be affected unless there is drastic reaction on other overseas markets," commented an analyst at Nikko Securities.

Arbitrageurs sought shares as the futures market was buoyed by hopes of lower interest rates. Yields on the No 145 10-year government bond fell below 4.4 per cent for the first time since April 1988, as bond market participants were encouraged by the Ministry of Finance's outright purchase of bonds.

Large-capital shares were actively traded by institutional investors, who cross-traded holdings to realise profits. Nippon Steel, the most active issue of the day, firmed Y2 to Y268, while Mitsubishi Heavy gained Y1 at Y515.

Video game makers fell on concern over allegations that video games had caused epileptic seizures among children. Sega Enterprises declined for the fourth consecutive day, ending Y80 lower at Y9,890, while Nintendo shed Y100 to Y10,400 on the Osaka stock exchange.

Electronics issues were mixed, with Sony up Y70 to Y4,130 and Matsushita Electric Industrial ahead Y10 at Y1,110 on hopes regarding the expected economic recovery in the US. Toshiba slipped Y7 to Y607, weighed down by profit-taking.

Sumitomo Electric Industries put on Y3 at Y808 on short-term buying by individuals on reports that the company's joint venture had developed a substance to reproduce hair roots.

In Osaka, the OSE average edged forward 0.52 to 18,052.28 in volume of 53m shares.

Roundup

PACIFIC RIM markets were mostly firmer yesterday.

HONG KONG saw late buying of blue chips by overseas institutions which helped to reverse an early decline. The Hang Seng index ended 10.22 higher at 5,882.02.

Turnover fell to HK$2.44bn from Friday's HK$3.06bn, with investors restrained by continuing uncertainties about the Sino-British dispute over Governor Chris Patten's democratic reform package and US president-elect Bill Clinton's China policy.

Demand from Chinese companies took Sun Hung Kai Properties 10 cents ahead to HK$28.80 and Jardine Matheson moved 50 cents higher to HK$46.75.

AUSTRALIA saw a modicum of overseas interest and the All Ordinaries index appreciated 4.4 to 1,528.8 in turnover of A$276.72m.

A 16 cent rise to A$13.28 by BHP was attributed to reassuring comments from the Papua New Guinea government about the future of the Kutubu oil field, in which BHP has a 9.6 per cent stake.

SINGAPORE held mostly steady, but Malaysian stocks traded over the counter saw choppy early trade after reports that Malaysia's hereditary rulers had rejected proposed amendments to take away their immunity from the law. Later it emerged that a compromise was likely to be reached. The Straits Times Industrial index gained 4.6 at 1,577 in turnover of 88.8m shares.

KUALA LUMPUR moved erratically before closing on a higher note which saw the composite index up by 6.88 at 624.37. *Multi-Purpose Holdings* advanced 23 cents to M$1.83 in active trading after an unconfirmed report that a Chinese city was to be allowed to hold a weekly lottery.

SEOUL ended slightly firmer as buying, centred on large-capitalisation shares, outweighed some afternoon profit-taking. The composite index moved up 1.92 to 693.23 in turnover of Won529.61bn.

MANILA slipped in reaction to news that the government intends to break up Philippine Long Distance Telephone's monopoly. The composite index declined 5.90 to 1,306.65. PLDT's share price, which ranged from 905 to 890 pesos most of last week, fell to 870.

BOMBAY rose on sustained buying triggered by a belief that weekend changes in Prime Minister P.V. Narasimha Rao's cabinet would spur India's economic reforms. The BSE index finished up 60.51 at 2,586.05.

Italy and Spain attract strong interest

MARKETS IN PERSPECTIVE

	% change in local currency †				% change sterling †	% change in US $ †
	1 Week	4 Weeks	1 Year	Start of 1993	Start of 1993	Start of 1993
Austria	-2.56	+0.75	-20.32	-5.60	-7.40	-8.42
Belgium	-0.43	+1.98	-3.89	+1.17	-0.94	+0.11
Denmark	-2.67	-1.84	-28.91	+0.64	-0.74	+0.31
Finland	-1.50	+7.08	+2.62	+7.50	+3.32	+4.41
France	-0.93	+3.98	-1.98	-0.70	-1.73	-0.70
Germany	+0.86	+3.56	-8.86	+0.21	-1.81	-0.77
Ireland	-3.09	+2.93	-13.61	+3.53	+2.10	+3.17
Italy	+6.51	+16.29	-6.73	+9.22	+6.07	-7.18
Netherlands	-0.22	+1.82	+1.08	+0.86	-1.13	-0.08
Norway	-1.34	+1.71	-15.36	+3.45	+2.81	+3.90
Spain	+4.66	+8.41	-10.01	+7.53	+5.26	+6.37
Sweden	-2.81	+1.77	+10.83	+0.07	-3.69	-2.68
Switzerland	+1.47	+3.37	+15.04	+0.79	-2.40	-1.37
UK	-1.28	-0.36	+10.21	-2.33	-2.33	-1.31
EUROPE	-0.18	+2.24	+1.82	-0.24	-1.44	-0.40
Australia	+1.00	+0.10	-11.39	-2.07	-5.02	-4.02
Hong Kong	+5.55	+12.11	+29.73	+6.04	+4.97	+6.08
Japan	-1.84	-5.85	-20.77	-3.11	-5.08	-4.08
Malaysia	-1.23	-2.63	+13.84	-2.87	-3.03	-2.01
New Zealand	-0.99	+0.36	-6.27	-3.16	-4.21	-3.22
Singapore	-1.22	+2.26	-4.06	-0.33	-2.41	-1.38
Canada	+0.15	-1.18	-10.94	-1.39	-3.22	-2.21
USA	+1.88	-0.77	+4.09	+0.33	-0.72	+0.33
Mexico	-3.63	+2.11	+11.55	-0.17	-0.87	+0.18
South Africa	+0.86	+6.19	-11.84	+4.96	+4.50	+5.60
WORLD INDEX	+0.41	-1.11	-4.27	-0.66	-2.00	-0.97

† Based on January 15th 1992. Copyright, The Financial Times Limited, Goldman, Sachs & Co., and NatWest Securities Limited.

By John Pitt

Measures to boost popular share ownership in Italy and renewed foreign investment interest in Spain saw these two markets outperform the rest of Europe last week.

But weakness in Denmark, upset by the resignation of Prime Minister Poul Schlüter over the 'Tamilgate' affair, and Ireland, still fighting pressure to devalue the punt, helped to take the European component of the FT-A World Indices into negative territory.

Spain has enjoyed a traditionally good start to the year, with hopes of an easing in interest rates throughout the Continent helping to improve confidence.

Mr Victor Galliano, Spanish analyst at Baring Securities, comments that many investors are beginning to look to invest outside the hard currency markets and see Spain as a good opportunity.

Inflation data which came in slightly under expectations year-on-year also gave a boost to the market, and Mr Galliano believes that the general index could reach a short term high of 250.

The Italian market began to improve early in the week, ahead of Friday's decision by the government to allow investors a 27 per cent tax break in newly quoted companies and the opportunity to swap holdings in government bonds for privatised shares.

Elsewhere, Hong Kong had a good week with a 5.5 per cent gain. Mr David Bates, of Asia Equity in London, ascribes this to suggestions that secret negotiations are being held between Chinese and UK officials to resolve the conflict over plans for political reforms in the colony. Reports that Governor Chris Patten has softened some of these proposals has also helped sentiment, he says.

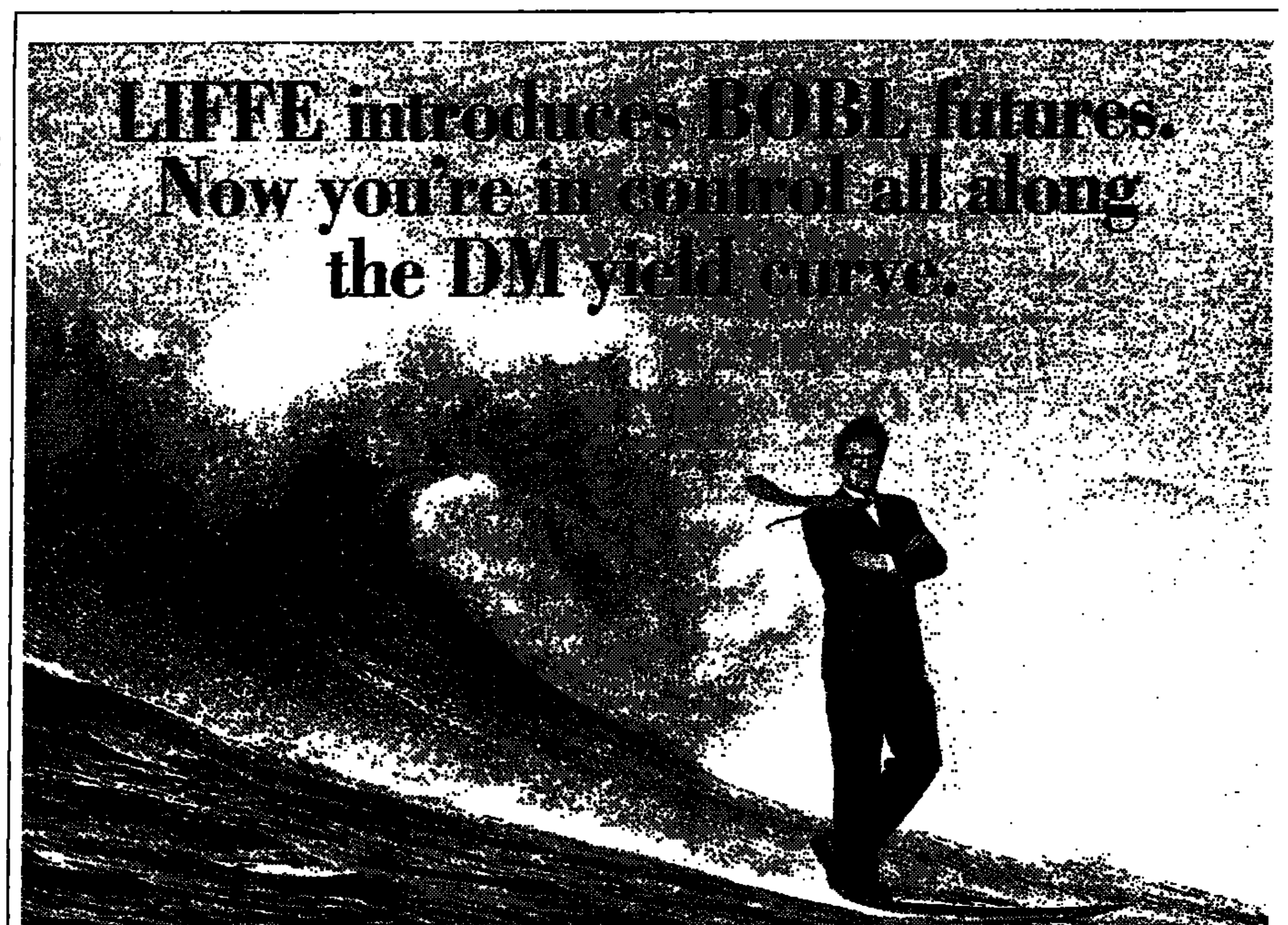
Among the Latin American markets, Mexico weakened 3.6 per cent in local currency terms, partly in reaction to Wednesday's allied air attack on Iraq which caused slight falls among many of the world's markets.

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co. and NatWest Securities Limited in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS	FRIDAY JANUARY 15 1993								THURSDAY JANUARY 14 1993					DOLLAR INDEX		
Figures in parentheses show number of lines of stock	US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	1992/93 High	1992/93 Low	Year ago (approx)
Australia (68)	120.09	+1.7	116.37	95.72	102.11	118.49	+1.1	4.10	118.04	113.83	93.79	99.39	117.16	153.68	108.18	148.63
Austria (18)	131.16	-0.9	127.09	104.55	111.52	110.82	-0.7	2.20	132.37	127.65	105.18	111.46	111.60	186.70	131.16	164.69
Belgium (42)	133.37	-1.4	129.24	106.30	113.41	110.52	-0.7	5.47	135.28	130.45	107.48	113.90	111.26	152.27	131.19	141.92
Canada (113)	113.09	-0.2	109.59	90.14	96.16	104.99	+0.0	3.15	113.31	109.26	90.03	95.40	104.98	142.12	111.36	142.12
Denmark (33)	186.70	-0.9	180.91	148.82	158.75	159.85	-0.5	1.71	188.41	181.68	149.71	158.64	160.61	273.94	181.70	264.40
Finland (23)	72.68	+3.2	70.43	57.94	61.80	82.14	+2.6	1.72	70.43	67.91	55.96	59.30	80.08	89.80	52.84	86.61
France (99)	146.15	+0.6	141.62	116.48	124.26	126.66	+1.2	3.56	145.31	140.12	115.45	122.34	125.14	168.75	136.93	149.69
Germany (62)	103.24	+0.3	100.04	82.30	87.78	87.78	+1.3	2.59	102.90	99.23	81.77	86.64	86.64	129.69	101.59	117.76
Hong Kong (55)	235.04	-0.5	227.75	187.34	199.86	233.50	-0.5	3.84	236.11	227.68	187.61	198.81	234.55	262.28	176.36	183.93
Ireland (16)	140.09	+0.0	135.75	111.67	119.12	122.04	+0.4	4.35	140.07	135.07	111.30	117.94	121.61	173.71	122.98	172.29
Italy (76)	58.81	+3.0	56.99	46.88	50.01	65.95	+3.0	3.15	57.12	55.08	45.39	48.09	64.03	80.86	47.47	78.31
Japan (472)	100.75	-0.3	97.63	80.31	85.68	80.31	+0.0	1.04	101.07	97.46	80.31	85.11	80.31	140.95	87.27	123.95
Malaysia (69)	256.21	+0.3	248.27	204.21	217.84	255.81	+0.0	2.60	255.37	246.25	202.90	215.01	255.76	282.42	212.49	220.64
Mexico (18)	1650.88	-0.1	1599.73	1315.92	1403.74	5611.72	-0.2	1.07	1652.26	1593.25	1312.84	1391.16	5622.71	1789.77	1185.84	1506.53
Netherland (25)	151.28	-0.5	146.59	120.58	128.63	126.77	+0.3	4.49	152.09	146.65	120.84	128.06	126.40	169.70	147.88	152.35
New Zealand (13)	41.51	+0.8	40.23	33.09	35.30	42.91	+0.5	5.10	41.19	39.72	32.73	34.68	42.70	48.52	37.39	46.72
Norway (22)	143.08	-0.4	138.64	114.05	121.66	133.76	-0.2	1.80	143.60	138.47	114.10	120.91	134.00	192.95	128.05	192.95
Singapore (38)	210.42	+0.5	203.90	167.72	178.91	160.77	+0.5	2.05	209.43	201.95	166.41	176.33	159.92	229.63	179.65	224.35
South Africa (60)	156.40	-1.0	151.55	124.66	132.98	164.94	-0.3	3.08	157.95	152.31	125.50	132.98	165.45	263.60	134.21	260.62
Spain (47)	124.04	+1.6	120.20	98.88	105.47	108.82	+2.1	5.58	122.05	117.69	96.98	102.76	106.57	161.72	107.10	154.15
Sweden (36)	161.13	-0.4	156.13	128.44	137.01	173.47	+0.5	2.47	161.81	156.03	128.57	136.24	172.65	200.28	149.69	185.22
Switzerland (56)	111.46	-1.0	108.00	88.85	94.78	103.48	+0.1	2.07	112.58	108.56	89.46	94.80	103.40	122.37	95.99	100.69
United Kingdom (226)	170.11	-0.3	164.84	135.58	144.63	164.84	+0.2	4.49	170.59	164.50	135.54	143.62	164.50	200.07	161.86	179.86
USA (522)	178.68	+0.3	173.15	142.43	151.94	178.68	+0.3	2.87	178.20	171.83	141.59	150.04	178.20	180.06	160.92	170.76
Europe (781)	135.47	+0.0	131.27	107.98	115.19	124.55	+0.7	3.79	135.44	130.60	107.61	114.04	123.74	156.88	131.31	146.06
Nordic (114)	146.84	-0.2	142.29	117.05	124.86	140.29	+0.4	2.18	147.16	141.91	116.93	123.91	139.74	188.52	141.24	186.60
Pacific Basin (715)	105.89	-0.2	102.61	84.41	90.04	86.12	+0.0	1.40	106.11	102.32	84.32	89.35	86.09	141.97	93.70	126.54
Euro-Pacific (1496)	117.87	-0.1	114.22	93.94	100.22	101.42	+0.3	2.52	117.98	113.77	93.74	99.33	101.09	145.21	113.80	134.63
North America (635)	174.62	+0.3	169.21	139.21	148.50	173.69	+0.3	2.88	174.18	167.96	138.41	146.68	173.24	176.04	158.70	168.93
Europe Ex. UK (555)	114.68	+0.2	111.12	91.43	97.53	102.44	+1.0	3.29	114.40	110.31	90.91	96.34	101.44	132.98	111.33	125.49
Pacific Ex. Japan (243)	156.31	+0.5	151.47	124.61	132.92	145.73	+0.3	3.64	155.53	149.98	123.60	130.97	145.36	175.31	146.06	152.07
World Ex. US (1687)	119.10	-0.1	115.41	94.94	101.27	103.56	+0.3	2.53	119.24	114.98	94.75	100.40	103.25	146.91	115.99	137.12
World Ex. UK (1983)	135.22	+0.1	131.03	107.79	114.99	122.88	+0.3	2.47	135.10	130.27	107.35	113.76	122.52	150.58	127.21	144.34
World Ex. So. Af. (2149)	138.23	+0.1	133.95	110.19	117.55	126.22	+0.3	2.68	138.15	133.21	109.78	116.32	125.85	153.05	130.04	146.89
World Ex. Japan (1737)	159.30	+0.2	154.36	126.99	135.47	153.65	+0.4	3.21	159.02	153.34	126.37	133.91	153.07	165.40	151.93	161.23
The World Index (2209)	138.25	+0.1	133.97	110.20	117.56	126.58	+0.3	2.68	138.18	133.24	109.80	116.35	126.22	153.70	130.66	147.44

Latest prices were unavailable for this edition.



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FINANCIAL TIMES SURVEY

THE EUROPEAN SINGLE MARKET

SECTION III

Tuesday January 19 1993

A leap across fallen barriers

The single market is not a panacea for the problems of Europe. But with the right policies, hope will be restored in the east and in the west. David Marsh reports

THE European Community's single market, born at the start of this year, is an old idea, superimposed upon a continent jolted into several new directions at once.

Allowing goods, people, services and capital to flow around an area accounting for about one quarter of world economic output marks a giant step forward for the EC. Breaking down Europe's barriers fulfils the concept set out in the 1957 Treaty of Rome of forming a genuine common market.

The single market programme is enshrined in the Single European Act, which came into effect in 1987. Launching measures with the effect of increasing competition and building a more homogeneous EC business environment has already produced some harsh effects – not least in contributing to plant closures and layoffs as companies try to concentrate their EC operations in the most efficient or low-cost centres.

The programme as a whole, however, is a recipe for growth. European industry as a whole faces a grave problem of deteriorating international competitiveness – particularly in comparison with the newly industrialising countries of the Pacific rim, which have been making large inroads into EC markets.

As part of a strategy of overcoming this drawback, European governments and legislators have accomplished a victory of Community-mindedness over national interests – and have put into place a powerful springboard to help cope the EC with the economic challenges of the 1990s.

Some important areas are still to be dealt with, for instance in energy, telecommunications and transport. An imperfect solution has been found over the vexed question of creating a unified system for collecting value added tax across the continent.

Additionally, partly because of controversy over immigration pressures – touched off by the conflict in former Yugoslavia, as well as upheaval elsewhere in the world – some controls remain in force on people crossing EC borders, particularly at airports. None the less, roughly 95 per cent of the liberalisation measures outlined in 1985 have been established as EC legislation, extending to the main fields of industry, public procurement and financial services.

The Community seems unlikely to embark upon a new phase of large-scale legislation to clear up exemptions. But it has set itself a goal during the next few years not only of completing the single market agenda, but also of making it work.

The EC now has a market-place. There is a long way to go, however, before we have a single Europe. The ructions during 1992 over the Maastricht treaty underlined that consensus is far from complete on future political and economic integration. The road to economic and monetary union (Emu) – which many top European politicians, though not quite so many leading businessmen – have always regarded as essential for bringing the single market to maturity – is now strewn with more obstacles than seemed apparent a year ago.

After the autumn exchange rate turbulence, a large question mark also hangs over the future of the European monetary system.

Yet, the single market process of harmonising regulations and laws on products, trade, traffic and people has placed the EC firmly on the road to supranationalism. Neither the Single European Act nor Maastricht sets down a blueprint for a federal European state. But member countries now recognise that a formal renunciation of sovereignty in important areas once held to be the prerogative of nation-states, and a pooling of resources and powers, can maximise benefits for all.

The single market's period of gestation has coincided, in the east of the continent, with the death of communism. But capitalism's triumph is by no means unmitigated. After the excitement and euphoria generated by the breakdown of the east-west divide and the ending of the cold war, Europe is weathering a phase of dourness and doubt. Last year's controversies over Maastricht exposed a disquieting gap between politicians and voters over the speed and direction of European development.

The swing to fringe extremist parties in many countries during the past 12 months is a symptom of some deeper pressures – among others, mounting unemployment, now standing at around 16m throughout the EC.

Europe's task for 1993 is thus to show it can successfully manage a highly difficult period of transition. There are three immediate challenges. First, businesses and individuals have to show they can maximise the chances offered by the single market, in spite of the most severe economic downturn for 10 years in western Europe, and a deep restructuring crisis in the east.

Placing the rules of the single market on to the statute book was difficult, but making them work will be more onerous still. The EC will also have to ensure fair and equitable enforcement.

Second, the EC has to progress towards the goal of a wider Europe. The Community's decision at the Edinburgh summit to start EC entry negotiations this month with Austria, Finland and Sweden, reversing the previous agreement to wait for ratification of Maastricht in all 12 states, is an encouraging sign that the momentum of enlargement can be maintained.

The rejection last month by Switzerland – the EC's second most important trading partner, after the US – of the plan for a free trade area between the EC and the European Free Trade Association (Efta) was a blow, but not a disaster.

The EC's single market encompasses 344m people. The European Economic Area, which will now come into effect in the second half of the year, about six months later than planned, will unite a population of 370m people, including all the other six Efta states apart from Switzerland. The three Efta states starting accession negotiations this month may join by 1995.

The third challenge concerns the east of the continent. Even on the most optimistic assumptions, the former communist countries of eastern and central Europe will have to wait beyond the year 2000 until they can join the EC.

In partnership with the new administration in Washington, the EC will have to redouble efforts to prevent chaos across the former communist bloc from sparking off more generalised disruption in Europe. In 1992, the EC's inability to stop, or even significantly influence, the war in former-Yugoslavia painfully illustrated the limits of the EC's fledgling foreign policy. In 1993, the difficulties caused by economic dislocation and political fragmentation in the east could become still worse if the European economy slides into full-scale recession.

The economic clouds over the continent are all the more disquieting because, in theory at least, the approach of the single market should have blown them away. When EC governments negotiated the concept in 1985, the single market programme was viewed as a sizeable boost to trade and investment.

An optimistic report published in 1988 under the aegis of Mr Paolo Cecchini, a senior Commission official, forecast that the single market would increase EC gross national product by 4.5 per cent over the medium term. It would also, according to the report's conclusions, dampen inflation, improve countries' budget positions, lower external deficits and create 1.8m new jobs over the longer term.

Anticipation of the single market undoubtedly speeded up trade and investment during the second half of the 1980s, illustrated particularly by a spate of cross-border acquisitions and mergers. Growth was also accelerated by the boom in Germany in 1989-91 caused first by the collapse of the Berlin Wall and then by reunification.

EC experts now reckon that 30 per cent of the forecast effect of the single market programme may already have worked its way through to the European economy. The fillip to western growth at the end of the 1980s explains why many of the controversial proposals of the Single European Act – in contrast to those in the Maastricht treaty – did not attract undue opposition in parliaments and public opinion.

The economic expansion in the late 1980s also helps explain why the EC, shrugging off a decade of drift after the first oil crisis in 1973, suddenly became a burning source of hope and prosperity for the eastern half of the continent. Now, however, high German interest rates and the post-unification difficulties faced by the German economy have thrown a pall over the landscape.

With the dissipation of the positive economic effects of the late 1980s, the EC – and those outside who see it as a beacon of light in a dark world – have had to scale down their expectations for the 1990s.

The single market is not a panacea for Europe's problems. Yet, if governments adopt the right policies to end the recession, it provides the best route towards stability and prosperity later in the 1990s – for both halves of the continent.

David Marsh tries to dispel some of the more alarming anxieties about life in the new Europe

Fishermen need not wear hairnets

ASSERTION: A Commission directive will oblige fishermen to wear hairnets aboard their boats.

FACT: Untrue. A Council directive, which took effect on January 1 1993, aims at ensuring strict hygiene conditions in fish-processing plants. Dockside staff who cut fish will have to wear suitable head cover to avoid contaminating fish. This does not mean hairnets. It does not apply to fishermen on boats, with the exception of workers on factory vessels.

ASSERTION: Firemen will have to adopt new uniforms to conform with EC safety rules.

FACT: From January 1 1993, "personal protective equipment" must satisfy common safety requirements under a December 1989 Council directive. This includes firemen's uniforms and hats. All products marketed after 1993 will have to include an EC conformity mark.

ASSERTION: EC regulations require Christmas trees to be symmetrical in shape, with regularly spaced needles.

FACT: Untrue. No EC regulations on standardised Christmas trees. The Christmas Tree Growing Association of western Europe has, however, drawn up European specifications to try to aid marketing.

ASSERTION: EC regulations forbid the marketing of a favourite Danish apple, the Ingrid Marie.

FACT: For the purpose of freedom of movement and consumer protection, EC apples are classified into two categories – "small", with a minimum diameter of 55mm, and "large" with a diameter exceeding 65mm. In July 1989 the Danish fruit growers' association classified the Ingrid Marie as "large". However, since half the harvest did not reach the required size, the apples could not be marketed normally, and had to be sold to the processing industry. There are two solutions: to introduce a new "medium-sized" category – which could increase administration costs – or to reclassify the Ingrid Marie as "small".

ASSERTION: The Commission wants to outlaw the dye which gives smoked haddock its distinctive golden hue.

FACT: Untrue. More than 30 colours are provided for in the Commission's proposals for a Council directive for colours used for foodstuffs – including those used for haddock.

ASSERTION: The European parliament wants to stop skiing when snow is not deep enough.

FACT: The parliament adopted in June 1991 a resolution to preserve the ecological balance in Alpine areas, proposing restrictions on ski runs where snow is less than 20 cm deep. The Council has not followed up these recommendations.

ASSERTION: Britain's Essex coast will face an invasion of cockle fishing boats this year.

FACT: On January 1, existing UK public health requirements on molluscs were replaced by new EC requirements. (Directive 91/493/EEC, L 268). This means that cockles from certain parts of the Thames estuary will no longer have to be processed in a particular plant in Leigh-on-Sea. But foreign fishing boats which want to catch UK cockles are still subject to Sea Fisheries Committees byelaws.

ASSERTION: An EC food hygiene directive will force street vendors and cafes to close.

FACT: A general food hygiene directive is under discussion in the Community.

The proposal is broadly similar to provisions already in UK law. Detailed guidance will be left to voluntary codes of industry practice, to be drawn up in consultation with producers, retailers and consumers.

ASSERTION: Charity shops are banned from selling second-hand toys as a result of EC toy safety directive.

FACT: According to Directive 88/378/EEC on the Safety of Toys, in force since January 1 1990, all toys placed on the Community market for the first time must bear the CE safety mark. This applies to new toys sold in charity shops – but not to second-hand toys.

ASSERTION: Under new EC legislation, there will be a reversal of "burden of proof", meaning that lifeboat teams and mountain accident services could be sued for negligence by people they try to rescue.

FACT: A proposed directive on liability of suppliers of services intends to make a provider of services responsible for proving that everything possible is done to assure safety of the consumer. This covers sea and mountain rescue services. But proposals make specific reference to the notion of "legitimate expectation". So the person rescued cannot in practice hold rescue services responsible for injuries sustained.

ASSERTION: An EC directive on health rules unfairly discriminates against French soft cheeses.

FACT: The Council adopted in June 1992 a directive on health rules for production and marketing of raw milk, heat-treated milk and milk-based products. It will come into effect on January 1 1994. As far as soft cheeses are concerned, it will ensure that milk used comes from animals and stocks which satisfy health and hygiene requirements. Cheeses produced should comply with specified microbiological criteria (checks for listeria, salmonella, escherichia coli etc.) Products failing to conform may be withdrawn.

ASSERTION: The Royal Navy will have to end its tradition of stirring Christmas pudding mixtures with wooden oars, on account of a new EC hygiene regulation.

FACT: Untrue. The framework directive on materials in contact with foodstuffs (89/109/CEE – L40) merely states that such materials should not "transfer their constituents to foodstuffs in quantities which could endanger human health or bring about an unacceptable change in the composition of the foodstuffs".

ASSERTION: EC regulations are forcing butchers' shops to close.

FACT: Untrue. New rules on handling of fresh meat apply only to slaughterhouses, processing plants, storage facilities and warehouses, not to retail premises.

ASSERTION: A draft directive states that Euro-furniture shall not be made of European oak because it is too knotty. German and Italian varieties will be favoured because they have fewer knots.

FACT: There is no such draft directive. Two long-standing pieces of legislation on marketing of certain seeds, such as oak, set up quality conditions. The UK has complained in the past that not many seeds from British oaks are recognised as eligible for planting in other EC countries.

ASSERTION: Youngsters will have to give up newspaper delivery rounds if the EC directive on protection of young people at work is adopted.

FACT: Untrue. Young people in full time education are restricted to 15 hours a week and three hours a day for light jobs, but will still be able to do paper rounds. Work must take place outside official school hours. Must generally be between 6 am and 8 pm – although exceptions are allowed.

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THE EUROPEAN SINGLE MARKET 2

Enforcing the new legislation will provide the real test, writes **Lionel Barber**

Now comes the hard part

The European Parliament, Strasbourg: plenty of voices will be calling for the outstanding gaps to be filled

AFTER pushing dozens of new laws through their national parliaments, EC member states must now live up to their promises and make the European single market work.

One word is likely to dominate debate on the single market in 1993: enforcement. Striking the correct balance between the supervisory role of member states and the European Commission will not be easy; but it is vital if cross-border disputes about implementation are to be avoided and confidence in the single market is to be retained.

The task is daunting. Rhetoric in Brussels about the irreversible common destiny of EC member states often minimises the deep-rooted diversity. Just as there is an obvious "top tier" of strong economies in northern Europe built around Germany, so too there will be a "lower tier" of countries lagging on enforcement standards – particularly in the sensitive area of public procurement where the temptation to protect national companies will be formidable.

The signs already point in this direction. Although 95 per cent of the single market programme set out in the original white paper were complete by the end of 1992, less than half of it was expected to be transposed into national law of all 12 member states, according to a report by the committee on economic, monetary and industrial affairs of the European Parliament.

Denmark, often accused of being the Community troublemaker after its rejection of the Maastricht treaty, has the best track-record on transposition.

Moreover, there are important gaps in implementation in areas such as dual-use technology which can have military application, explosives, works of art and meat goods. Nor are companies likely to be ready to adjust to the new rules covering VAT collection.

Mr Ben Patterson, the Conservative MEP who authored the above report, is flush with examples of foot-dragging in common professional standards: Greek engineers trained in Germany whose qualifications are not recognised back home; British airline pilots who, having worked for a private German airline, cannot get permanent jobs; and a failure to reach agreement on general recognition of higher education diplomas.

The most serious work to date on enforcement is the report drawn up by Mr Peter Sutherland, the former EC Commissioner responsible for competition policy, who chaired a high-level group on implementation last year.

The 60-page study makes numerous practical suggestions aimed at making the single market fairer, more consumer-friendly, more open and more efficient in terms of streamlining its laws. Among its chief recommendations are:

● A "deeper partnership" between the European Commission and member states aimed at exchanging information, mainly through officials working on an informal basis;

● Provision by states and Brussels of informal advice on redress for breaches of EC law to those requesting it. Plus an ombudsman at EC level or in each member state;

● Systematic consolidation of EC law and creation of a legislative co-ordination unit inside the Commission to prevent overlap;

● A better understanding and use of EC law, including possible compulsory courses for judges and a new communications campaign to make sure EC citizens are aware of their legal rights.

The Sutherland report was influenced heavily by the debate within the Community on "subsidiarity" – devolving decision-making to the lowest appropriate level – which erupted in the wake of the Danes' rejection of the Maastricht treaty.

Some critics have wondered whether Mr Sutherland pulled some of his enforcement punches. His panel's rejection, at this stage, of a central clearing house to collect data on infringement of the single market, for example, may reflect fears of a new Brussels bureaucracy policing cross-border trade; but it raises the threat of unsatisfactory trade-offs between countries. "Those who have stronger standards of implementation will lose out," says one EC official.

The UK, the driving force behind subsidiarity, is anxious that the Commission does not turn into a shrinking violet. This is not so much a political *volte face*; more a hard-headed calculation that if cross-border disputes flare up, the Commission is well placed to act as arbiter rather than burdening the European Court with dozens of legal cases.

Thus, a recent UK draft proposes permanent Commission inspectorates to monitor selectively member states' performance, and a Commission review which "where necessary" may go to the relevant Council of Ministers. "The logic of the internal market demands satisfactory arrangements for its joint management by the Commission and the national administrations," says the report.

As the Commission's response to both the Sutherland and the UK report made clear, much will depend on strengthening the machinery for co-operation between Brussels and member states. Proposals include a new training policy for officials in enforcement, new computer networks to speed up the flow of data on the operation of the internal market, and more efficient management of the customs union.

Much will depend on strengthening the co-operation between Brussels and member states

These are the challenges facing those struggling to keep the playing field level in the single market; but it is clear that plenty of voices will be calling for the outstanding gaps to be filled.

Mr Patterson is convinced that there are sufficient uncovered areas to warrant production of a new Commission white paper.

"In addition, there will be a need to deal with the new barriers to free movement which changing technology and the ingenuity of protectionist forces will create."

The converse argument is that some forces – such as organised crime – may be so adept at freedom of movement of goods and capital that calls for reimposing some controls may prove irresistible. But for the moment the forces of integration are firmly in the saddle as the race to take advantage of the single market enters the home stretch.

■ **Interview:** Lord Cockfield, market mastermind

It really worked

ROBERT CORZINE meets Lord Cockfield, architect of the EC single market

Lord Cockfield: 'The single market is almost exactly as envisaged'

LORD COCKFIELD, the crusty British peer who was European commissioner for the internal market from 1984 to 1988, is in the satisfying position of seeing a vision turned into reality.

"The single market is almost exactly as envisaged," he says, "except for minor flaws, such as the remaining frontier controls over people, and the fact that the financial sector reforms are not as liberal as I would have liked."

Lord Cockfield's stint in Brussels coincided with a number of milestones in the single market process. His biggest achievement was the 1985 European Commission White Paper and its nearly 300 legislative proposals setting out the framework for the market.

His great strength, according to observers at the time, was writing the paper in a way which gave national politicians a clear and logical blueprint for building the market. His experience as a commissioner of Inland Revenue in Britain gave him the ability to find ways through thorny and highly technical tax issues requiring unanimous agreement by all 12 member states.

As a salesman for the programme, however, Lord Cockfield was less adept. He rarely ventured forth to national capitals to lobby ministers, preferring instead to stay in Brussels and to make his points at Council meetings

He did, however, ask Mr Paolo Cecchini, a senior Commission official, to oversee the compilation of what became the landmark report on the proposed market. It stands as one of the largest pieces of market research ever conducted. Especially in view of its rosy economic forecasts and commercial scenarios, many economists came to view it mainly as a propaganda exercise to sell the White Paper proposals. But the report, published in 1988, set off a flurry of corporate strategic reviews.

The economic buoyancy of 1986-90 – when EC economies registered average annual growth rates of 3.2 per cent – made it easier for politicians to accept those parts of the programme curbing national monopolies or initiating painful industrial restructuring. "An economic downturn three or four years ago and it could have been another story," he concedes.

A former trade secretary in Mrs Thatcher's government in the early 1980s, Lord Cockfield shied away from harmonisation of standards as the main way of overcoming national regulatory differences in European industries, favouring instead mutual recognition and market-oriented solutions.

His belief in the power of market forces is undiminished, as is his conviction that the imperfections in today's market will soon disappear. "Once we get rid of frontier controls and major nationalistic impulses, such as public procurement, then the forces of trade and the market will wash away the remaining barriers," he says. However, he does not make light of the challenges in making the market work. "The single market is in the bag. But we may have to deal with new barriers."

Lord Cockfield is a harsh critic of British government policy towards the European Community in general, and the single market in particular. He takes issue with politicians who promote the single market as an alternative to the far wider concept of European economic and political union.

"The UK government had little real understanding of what the single market meant," he says. "The original concept was that the single market would be the foundation on which we would build economic unity... the market is not the end of the road, but a road that leads somewhere, to economic union. It's just a pity that the economic agenda was not completed before work began on political union."

He says that the objective of a single European currency was enshrined for the first time in the Single European Act. He regrets the emotions surrounding the currency issue – one of the most controversial points in the debate over the Maastricht treaty. "The single market is an enormous benefit and the single currency would have produced a large add-on benefit." In view of the difficulties of keeping to the Maastricht monetary union timetable, he believes there is a good chance that Europe's single currency will turn out to be not the Ecu, but the D-Mark.

Goods will move more freely than people, writes **Andrew Hill**

Hang on to your passports

DON'T throw away your passport. For the EC traveller, the barrier-free European market has not quite arrived.

The lifting of frontier controls on goods and people was perhaps the most symbolic goal of the single market programme.

However, for six months or more it has been obvious that at least one, possibly three, and perhaps all 12 member states will not achieve the second of those objectives before the end of 1993.

Member states appear to have met the deadline for lifting frontier controls on goods. For all its alleged faults, the new "transitional" regime for VAT and excise duty has done away with the need for basic administrative border controls on all products. Some 60m tax forms, and the people who used to fill them in, have gone too.

On the other hand, there are lingering doubts about how a new frontier-free regime will affect certain products. In the case of bananas, for example, member states have just agreed a new quota regime, but it is unlikely to come into force for at least six months. There is as yet no definitive system for monitoring the cross-border movement of works of art or of "dual-use" goods, which have both military and civilian applications. The most likely solution is a formal or informal "cellule de crise" to deal with any problems which might occur between January 1 and the implementation of a new regime.

Officials agree it is little more than a sticking plaster solution, but it has allowed frontier controls on goods to be lifted before the January 1 deadline. If member states keep their nerve – and do not allow the inevitable media scares about loopholes and errors to shake them into a hasty reimposition of controls – then free movement of goods seems more or less assured.

The abolition of passport controls presents quite different problems, which are unlikely to be resolved before the end of this year, if at all.

Nine months ago, the Community seemed to divide into three main camps on the question of passport checks.

Britain has always been the member state most vehemently opposed to the lifting of border controls on people and its government's argument is relatively simple.

The 1986 Single European Act, it says, does not oblige the UK to lift its controls on non-EC citizens. Consequently, Britain must maintain at least a minimal check to ensure that unwanted non-EC travellers do not slip through the EC passport lane at ports and airports.

In the second camp are Denmark and Ireland. Denmark wants to maintain border controls, but has indicated in the past it might be prepared to lift them if sufficient safeguards are put in place. Ireland claims to be committed to the lifting of controls. But because of its geographical proximity to Britain, and the fact that most of its travellers pass through the UK under an existing free-travel agreement, it would find it difficult to loosen its controls without at least consulting the UK.

Finally, the European Commission and the remaining nine EC countries, which are members of the Schengen free-travel agreement, dispute the British interpretation of the Single European Act and are committed to the lifting of border controls on people.

Until recently, it looked as though the dispute between the Commission and the British government might end in the European Court. An individual court case – perhaps brought by a federalist MEP or ordinary free-travel zealot – is still not out of the question, but in the past six to nine months, a number of new elements have reduced the immediate threat of Commission court action:

● **Euro-politics.** Since the Danish and French referendums on the Maastricht treaty, Brussels has been increasingly reluctant to challenge member states on strongly held points of principle. Mr Kenneth Clarke, British home secretary, warned fellow EC interior ministers in June that pressurising Britain on passport controls could swing the UK parliament against the Maastricht treaty – it was a potent argument, according to observers.

● **The refugee problem.** Increasing immigration pressures and racial tension, particularly in Germany, have made the Schengen nine think twice about lifting their internal border controls as quickly as they had intended. The Schengen accord does commit them to abolish internal checks, but only when external frontiers have been sufficiently strengthened, and ancillary measures – such as a computer link between Schengen immigration authorities – have been put in place. Neither has yet happened.

● **Practical difficulties.** Airports – most notably the busy Schiphol hub in Amsterdam – have won a deferral of the deadline for lifting controls, on the grounds that they cannot physically change their infrastructure before December this year to separate EC and non-EC arrivals.

The result is that even the most enthusiastic countries are unlikely to lift their internal border controls on people before the middle of this year. Travellers in continental Europe will probably notice little change – cars will still be able to sweep through most internal borders without checks; airports will still check passports, although controls may get lighter as terminal infrastructure is adapted to cope with the new regime.

Britain, on the other hand, is planning to retain its controls at airports and sea borders unaltered until Schengen decides to abolish its internal checks.

When that happens, UK seaports will probably implement a version of the so-called "Bangemann wave" – named after the current internal market commissioner – requiring EC travellers to show the cover of their passport to officials.

Schengen's disarray on border controls let Britain off the hook as far as the January 1 deadline was concerned, but it seems unlikely that an eventual "two-speed" solution to the question of passport checks will be acceptable to all continental European countries. According to Schengen, the Bangemann wave is too strict as a control on internal borders and too lax as a control on external frontiers.

If Britain – or, indeed, Ireland and Denmark – decides to apply only minimal checks to travellers arriving from outside the Community then Schengen members may have to start examining the passports of passengers on flights and ferries from non-Schengen EC partners.

That would be a strange and unhappy end to a project that was supposed to be built on mutual trust and partnership.

RECENT LANDMARK EUROPEAN COMMUNITY COMPETITION RULINGS

DATE	CASE	SIGNIFICANCE
19.12.1990	ICI and Solvay fined Ecu47m for alleged soda ash cartel	■ *At the time, the largest ever fine imposed by the European Commission*
19.3.1991	European Court upholds Commission's right to use Article 90 of Treaty of Rome to liberalise the telecommunications equipment market	■ *Confirmed Brussels' ability to challenge national monopolies without seeking prior approval of EC member states*
24.7.1991	Tetra Pak fined Ecu75m for alleged abuse of its dominant position in the market for cartons and liquid packaging machinery*	■ *Currently the largest fine ever levied by the Commission*
2.10.1991	Commission vetoes Aérospatiale and Alenia's attempt to take over de Havilland, Canadian aircraft maker	■ *The first and only case yet blocked under the September 1990 EC merger regulation*
22.7.1992	Nestlé bid for Perrier cleared on condition that brands are given up to a "third force" on the French mineral water market	■ *Established for the first time that the EC merger task force will take into account the impact of duopolies and oligopolies on the market*

*Decisions still subject to appeal ruling in the European Court of Justice

Andrew Hill on the role of the new competition commissioner

A socialist's dilemma

THE internal market was not the only innovation ushered in with the new year. On January 6, European business came under the watchful eye of the European Community's first socialist competition commissioner, Mr Karel Van Miert, a pragmatic Belgian responsible for transport and, latterly, environment in the 1989-92 Commission.

Mr Van Miert has a hard act to follow. Sir Leon Brittan, now responsible for EC trade policy, was a committed liberal in the competition field. But the instinctive reaction of some of his supporters – that Mr Van Miert is bound to be "soft" on competition – is not necessarily borne out by the evidence.

For example, during the past four years, the Belgian commissioner has pushed through a complex and far-reaching air liberalisation package, which lifted government curbs on air fares from January 1. By mid-1997, this same deal will allow any EC airline to fly any route, including domestic services, anywhere in the Community. Given the strong vested interests ranged against Mr Van Miert, this was no mean achievement.

Nonetheless, Mr Van Miert takes over the role of competition commissioner at a difficult time. Pressure to reverse, or at least freeze, EC competition policy is growing. This is partly a result of the single market itself, which has opened previously protected EC industries to new competition from other EC countries and from outside the Community. It is also a symptom of the general recession which has tempted more interventionist-minded governments to try out protectionist solutions.

In his earliest statements after announcement of his new job, Mr Van Miert restricted his statements on EC competition policy to saying that there would be changes. He is likely, for example, to look more carefully at the social and industrial impact of competition decisions than his predecessors. Purists fear this will water down policy, but Sir Leon believes the precedents established under his regime and that of the previous commissioner, Mr Peter Sutherland, will last.

So what is in the panoply of anti-trust weapons which Mr Van Miert has inherited from his predecessors, and how will he use them?

● The EC merger regulation. Probably the most far-reaching of the innovations to emerge during the Sutherland-Brittan period, the regulation allows the Commission to look into large-scale cross-border mergers within set deadlines, and outlaw or amend deals. In fact, only one deal has been blocked outright since the regulation came into force 2¼ years ago – the Franco-Italian bid for de Havilland, the Canadian aircraft manufacturer, which, as transport commissioner, Mr Van Miert supported.

As competition supremo, Mr Van Miert will have to decide whether the threshold for examining deals under the regulation should be lowered, as favoured by Sir Leon and by the Commission's own merger task force. He will also grapple with the controversial question of how to define the market for each merger, and whether to allow European champions to develop in line with the growth of the single market.

● Articles 85 and 86 of the original EC treaty, which are aimed at preventing cartels, price-fixing and abuse of a company's dominant position. In the last months of his tenure, Sir Leon pledged to introduce new internally-binding deadlines for such cases, which frequently take a year or more to complete. If Mr Van Miert backs the Brittan reforms, he will have to try to persuade reluctant competition officials that such deadlines are feasible and necessary and ensure they are implemented. At the same time, he inherits a commitment to devolve responsibility for smaller anti-trust cases to national authorities – but without allowing overall competition policy to be distorted.

● Article 90 of the EC treaty, which gives the Commission the right to issue directives breaking open public monopolies without first having to gain member state approval. That right was affirmed by the European Court in 1991, but since then even Sir Leon has fought shy of using it, although he has threatened it many times against energy, postal and telecommunications monopolies. This would be one way of opening up some of the most difficult outstanding areas of the single market. But it would also be a last resort option. If Mr Van Miert chose to use it, he could alienate those member states – notably France – which were happiest with his appointment.

● State subsidies. This is probably the area in which Mr Van Miert will face the strongest challenges to his authority, as member states seek to ease their favourite industries into the single market. Sir Leon's advisers claim Mr Van Miert was too soft on state aid to airlines, the supervision of which is still the responsibility of the transport commissioner. But it is impossible to predict from a handful of decisions how he will react to more complex cases which bring together industrial, social and competition considerations.

● An independent EC cartel office. This is not yet part of the Commission's armoury, but the question of whether to create a separate German- or British-style competition authority is certain to be posed during Mr Van Miert's tenure.

The suggestion was always attacked by Sir Leon, partly on the grounds that it would encourage commissioners to take purely political decisions, whereas under the current system they are bound to consider the implications of their rulings for competition.

In fact, critics suggest that latterly Sir Leon was himself much too eager to tailor competition policy to short-term political demands: striking creative deals with merging companies, for example, to avoid another row like the one that exploded over de Havilland.

Competition lawyers in Brussels, and their corporate clients, say they are seeking the same from Mr Van Miert as they sought – and did not always receive – from his predecessors. They want predictability in the implementation of EC competition policy, enabling business to work confidently within the single market. Mr Van Miert's much-vaunted pragmatism will face a hard test.

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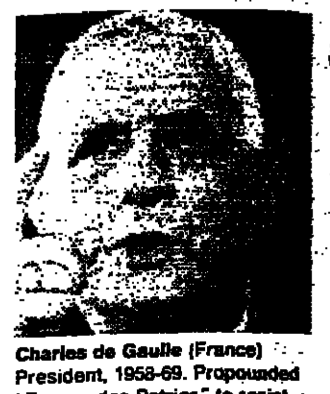
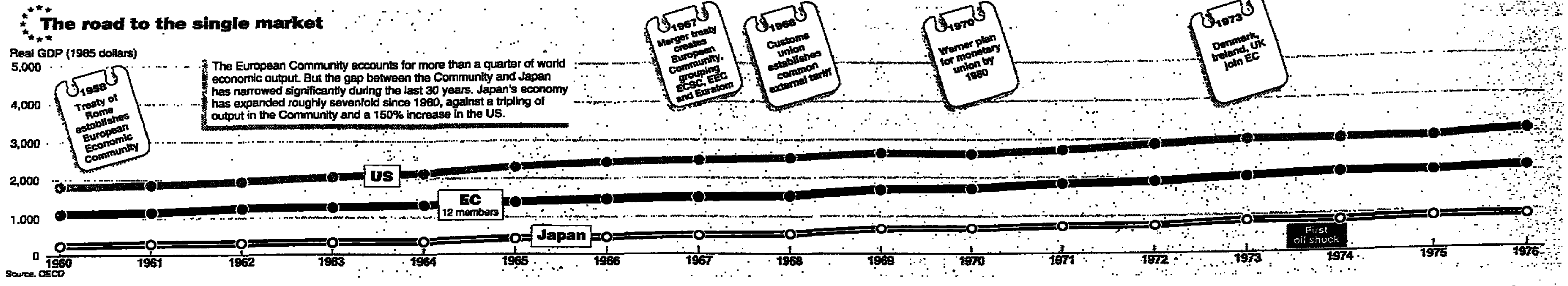
Walter Hallstein (Germany). First European Commission president, 1958-67. Helped to forge the Common Market


Charles de Gaulle (France) President, 1958-69. Propounded "Europe des Patries" to resist American influence

The road to the single market



Source: OECD

Martin Wolf weighs up the prospects for united Europe's economic recovery

Latent power to turn the tide

IT WAS not supposed to be like this.

The single market is open for business, just as the European economy slows down. Far from heralding renewed economic dynamism, January 1993 coincides with rising unemployment, currency turbulence and popular dissatisfaction. The European Community witnesses not a new burst of confidence and creativity, but a return to the gloom that occasioned the single market programme.

The OECD's latest *Economic Outlook* gives the growth of Europe's real gross domestic product at 1 per cent between 1991 and 1992 and forecasts it at 1.2 per cent between 1992 and 1993.

By contrast, the *Outlook* published last June forecast growth of 2.4 per cent between 1992 and 1993. This halving of the forecast for the coming year is consistent with the past over-optimism of the mainstream forecasters. The economic growth of 2.5 per cent forecast by the OECD for 1993 to 1994 could prove to be yet another overestimate. The European economy would then experience four successive years of disappointing growth.

Economic performance of the main European economies has been far from uniform.

Worst by far has been that of the UK. After falling by 2.2 per cent between 1990 and 1991 and by 1 per cent between 1991 and 1992, GDP is forecast by the OECD to rise by 1.3 per cent between 1992 and 1993. Yet even the expected growth of 2.4 per cent between 1993 and 1994 would only bring GDP back to its 1990 level.

By contrast, Italy is at least expected to sustain positive growth, though at low rates, throughout. Between 1990 and 1991 growth was 1.4 per cent. This is expected to be followed by 1.2 per cent growth from 1991 to 1992 and 0.8 per cent from 1992 to 1993.

In spite of Italy's fiscal crisis, the most severe among the group of seven leading industrial countries, its economic performance has not been much worse than that of France, even though French *rigueur* has made it the EC's blue-eyed boy. Between 1990 and 1991 French GDP expanded by 1.2 per cent. The OECD says it will expand by 1.9 per cent between 1991 and 1992 and forecasts only 1.6 per cent growth in the following year.

Europe's disappointing economic performance is partly explained by an adverse world economic environment, particularly the lingering recession, from which the US seems at last to be recovering.

It is also explained by problems within particular countries, notably the UK, with its overhang of private sector debt, and Italy, where public debt exceeds total GDP. But the principal failure lies in Germany, Europe's economic and geographical heart.

After four years of rapid economic growth, capped by the positive economic effects of unification in 1990 and 1991, German GDP continued to expand by 2.9 per cent in the first half of 1992, but only to contract by 0.9 per cent in the second half. The OECD has forecast 1.2 per cent growth of GDP between 1992 and 1993, but the organisation's chief economist has already lowered this forecast by half a percentage point.

Surprisingly perhaps, a German recession need not be bad news for the rest of Europe. The German economy has slowed in response to the Bundesbank's determination to bring inflation down from the 4.5 per cent registered in 1991 (measured by the deflator for total GDP) and expected by the OECD for 1992, to the 2 per cent it thinks is tolerable.

A German recession need not be bad news for the rest of Europe. It could lead to the lower interest rates needed by ERM members

German short term rates of interest have been exceptionally high in both nominal and real terms. But the belief that the D-Mark would never be depreciated within the exchange rate mechanism turns these German interest rates into the floor for all ERM members. Those interest rates have then deflated the economies of the rest of Europe. French short term real interest rates are 7-8 per cent, for example.

The contractionary effect of these rates has endured far longer and been far stronger than the stimulus generated by the disappearance of the German current account surplus between 1990 and 1991. Europe needs lower short term rates of interest. Though a deep recession is bound to damage Germany politically and economically, it should lead to lower German interest rates and so give members of the ERM the lower interest rates they need.

By now, this group excludes the UK and Italy, both shaken out of the ERM in mid-September. Apart from the suspension of the pound and the lira, the Spanish peseta has been realigned twice and the Portuguese escudo once, while the Irish punt, the Danish krone and the French franc have all been subject to considerable pressure.

The collapse of Finnish, Swedish and Norwegian attempts at fixing their exchange rates attests to the general disarray. Should the process of dissolution proceed still further, the Maastricht treaty's planned march towards economic and monetary union by 1997, or 1999, will lose all plausibility.

In any case, the convergence criteria laid down in that treaty, largely at German behest, will create severe difficulties. At present only two countries – France and Luxembourg – fulfil all these criteria, though Denmark (which has opted out from Emu) and Germany (the majority of whose citizens would like to opt out) almost make the grade.

The European slow-down has helped to bring about convergence of inflation: eight EC member states had consumer price inflation of between 2.2 and 4.1 per cent in 1992, with German inflation highest of this group. But slow growth makes it much more difficult to meet the Maastricht criteria for fiscal policy.

The IMF and the OECD argue that most member states cannot afford and should not attempt further fiscal stimulus. This may well be so, but slow growth will make reducing fiscal deficits difficult, while the immediate consequences are bound to be deflationary.

Gloom is the natural reaction to Europe's current economic situation. The single market is not having the positive effect on Europe's economic performance that was hoped. The monetary system is under attack. Meanwhile, policy-makers seem totally ineffective. The growth package agreed at the Edinburgh summit was nugatory, for example. As for the Bundesbank, it remains obstinately set on its deflationary course.

Yet, there is more to the prospects for the European economy than the current slow down. The important questions are those about the long term. Here there are important worries, but there are also opportunities.

Among the worries are whether Germany will manage to integrate the east German economy or will be struggling semi-permanently with high overall unemployment and high public sector deficits; whether the eastern European economies will achieve rapid economic growth; whether the world economy will recover its lost dynamism; and whether, in particular, the Uruguay Round of multilateral trade negotiations will be successfully completed.

These worries are the counterparts of economic opportunity. German unification should enable the EC's most important economy to achieve faster growth than in the 1970s and 1980s; eastern European reform could revitalise the European economy as a whole; and a dynamic and truly global economy can be created for the very first time.

Since the EC is the world's largest trading entity and one of its two largest economies, accounting for more than a quarter of world output, it is itself able to turn its worries into opportunities.

Hans-Peter Fröhlich suggests Germans are too enthusiastic for political union

Emu can go it alone

MANY GERMANS think that the Maastricht treaty is heavily lopsided. It specifies European Monetary Union (Emu) in great detail but is very vague on European Political Union (Epu). This result does not conform to the original German intention: before the Maastricht summit, Chancellor Helmut Kohl insisted on the need for parallel progress on Emu and Epu.

Numerous voices in Germany have recently called for new efforts to complement Emu with Epu. Particular support for Epu comes from many German economists, on the grounds that Emu will not be able to function without it.

This view is based on four main arguments, none of which is truly convincing. It is possible to create Emu without Epu. Furthermore, the creation of the single market may give an additional spur to this beneficial process.

The first of the four arguments for Epu rests on the premise that a single currency provides an additional incentive for government deficits. This is because a single currency removes the inflation and interest rate constraints for public borrowing.

Consequently, the theory goes, fiscal policy must be tightly controlled on a community level – a process which, in the final analysis, requires political union. Otherwise, anti-inflationary monetary policies are likely to be thwarted by fiscal laxity.

Yet, while a single currency does lift some public borrowing constraints, it also creates new ones, because national governments can no longer use the inflation tax to finance deficits. The increasing mobility of capital in a monetary union will at the same time put pressure on governments to project an image of fiscal soundness.

In addition, the Maastricht treaty itself helps to ensure budgetary discipline. One of the criteria for eligibility to join stage three of Emu is that the government deficit must not exceed 3 per cent of GDP. The ratio of public debt to GDP must also be not higher than 60 per cent.

In practice, these criteria may not be "watertight". But would matters be improved with European political union? There is room for doubt whether in a political union central authorities really are in a significantly better position to enforce budgetary discipline among the lower tiers of government. Federally structured states, such as the US or Germany, provide numerous examples to the contrary.

The next economic argument in favour of Epu runs like this: a single currency implies that the exchange rate is no longer an economic policy instrument. Under these conditions, asymmetric demand or supply shocks in the Community would lead to large and destabilising fluctuations in output and employment. Since most pain would be felt in the less productive, poorer economies, the richer countries would have to provide financial support for them. A large-scale horizontal fiscal transfer mechanism, however, would be acceptable to the voters only within an already-unified political entity.

This argument ignores the dynamic effects of economic integration. Monetary union would further increase the mobility of goods and capital in Europe which, as experience shows, tends to benefit the poorer countries most.

Spain and Portugal are cases in point. Since joining the EC in 1986, both have enjoyed growth rates almost twice as high as the rest of the community. The single market, combined with monetary union, may actually reduce the need for fiscal transfers, provided national governments pursue the right economic policies, which must above all be geared to improving the supply side.

The third line of argument emphasises that price stability cannot be achieved by the central bank alone, no matter how independent or skilled it is.

The primacy of price stability often implies painful policy trade-offs in terms of lower growth or higher unemployment levels. These consequences will not be accepted unless all segments of society share a broad anti-inflation consensus. In Germany the Bundesbank has always been able to count on that consensus, enabling it to play its rôle as guardian of the currency. Many observers doubt, however, whether this traditional German preference for price stability will be shared throughout Europe. Emu would then be doomed to failure.

This reflects old thinking. There have been times when Germany looked like an island of price stability in an inflationary sea, but the position has changed in recent years.

Six countries have, since 1979, participated with Germany in the narrow band of the EMS exchange rate mechanism. During the 1980s, most of these countries – Belgium, Denmark, France, Ireland, Luxembourg and the Netherlands – have seen their inflation rates converge with or even fall below, German levels. This clearly documents their commitment to price stability.


Berlin shoppers: a weakness for rose-coloured spectacles

The EMS split between low and higher inflation countries has been made still more evident by the currency unrest of last autumn. And, under the Maastricht rules, those countries which have not attained an anti-inflation consensus will be barred from joining Emu.

Fourth, some observers hint at constitutional problems if Emu is not accompanied by Epu. They say it would be mistaken to transfer responsibility for one aspect of economic policy – monetary affairs – to a supranational institution, while leaving the rest in the hands of national governments. Since monetary policy decisions of the European central bank in these circumstances are not likely to be coordinated with national economic policies, they may produce undesirable effects. More fundamentally, European central bank actions may infringe national powers to shape economic policy.

This reasoning is rooted in the Keynesian view that central bank actions influence aggregate economic activity.

Alternatively, one may postulate that a central bank's only job is to provide sound money, and that this is a goal to which all other economic policy objectives are subordinate. This is why prudent societies put responsibility for monetary policy in the hands of an independent central bank. It does not make much difference in this context whether the central bank operates autonomously within one country, as the Bundesbank has done for many years, or on a supranational level, as the European central bank would.

Thus, there is little reason to assume that monetary policy cannot be conducted effectively unless Emu is accompanied by Epu. On the contrary, Emu without Epu might represent a superior institutional framework for price stability.

In Emu without Epu, policy-makers will have a much better chance of accepting the fact that monetary policy is no longer within their grasp. In most European countries, national control over monetary policy has long been an illusion: under EMS rules, Germany's partners have to follow the course of the Bundesbank.

In Emu they will be better off. While the central bank continues to be out of their reach, they will be faced with monetary policies set by a supranational institution, rather than by an individual foreign central bank.

If monetary policy is transferred to a supranational level, it will, after all, be largely depoliticised. With its formal status of autonomy, the European central bank would be in a good position to live up to its task: providing sound money for the citizens of Europe.

Hans-Peter Fröhlich is senior economist at the Institut der deutschen Wirtschaft, Cologne.

More countries are queueing to join, says **David Marsh**

Wider still and wider

THE deepening of the European Community brought about by the single market also marks a step towards its enlargement.

During the second half of the 1980s, the EC became an attractive magnet for applicants outside its borders. Three members of the European Free Trade Association (Efta) – Austria, Sweden and Finland – are due to start EC entry negotiations during the next few weeks, with a fourth country, Norway, getting down to talks this spring. Their aim is to become full EC members by 1995.

These four states, together with the other three Efta members – Switzerland, Iceland and Liechtenstein – were due from January 1 to have formed with the EC the European Economic Area (EEA) – a free trade entity seen now as encompassing a waiting room for full EC membership.

The start of the EEA has been delayed until the second half of the year. This follows Switzerland's referendum rejection of the EEA last month – a decision motivated by Swiss voters' fears that the EEA would bring a dilution of their prosperity and stability. Assuming the other Efta states go ahead with ratification, the EEA will now link only 18 states, rather than the 19 (including Switzerland) originally planned.

Under the EEA, the regulatory framework of the single market is to be transferred practically wholesale to Efta – which is to adopt EC rules on competition, company law, consumer protection, education, the environment, research and development and social policies. The Efta countries are to set up their own enforcement body with powers over Efta territory. The Swiss "No," by a small majority of the electorate and a larger majority of cantons, was not unexpected. In view of Switzerland's entrenched neutrality and its unique system of direct democracy, there was even some quiet relief among some Brussels officials,who feared that Switzerland's special features might have made it the cuckoo in the EEA nest.

The No necessitates a time-consuming revision of the EC-EEA treaty meant to have come into force this month.

Efta states will have to renegotiate funding of Ecu2bn over five years due to be channelled to the EC's poorer regions under the terms of the EEA accord.

According to initial indications, the six Efta states still in favour of the EEA are asking the EC to accept a simple reduction of the Swiss contribution. This has sparked hostility, above all from Spain.

Other Efta countries have also, like Switzerland, witnessed a cooling of electoral enthusiasm about EC membership. Because these Efta members will themselves be holding EC referendums during the next few years, further Swiss-style setbacks cannot be ruled out.

Public opinion in Sweden and Finland, both in the grip of severe recession, has become less keen on the EC – reluctance which has probably been increased by the European currency turbulence in the closing months of 1992 which led to large devaluations of the Swedish krona and the Finnish markka.

There are also considerable doubts whether the Norwegian electorate will give its blessing to the EC link-up. Memories are still strong of the Norwegian referendum rejection of EC membership in 1972. However, if neighbouring Denmark surmounts its problems over Maastricht with a Yes to the treaty in the new referendum being held this spring, this will ease some of the public opinion obstacles confronting the other Nordic states.

Austria, Sweden, Finland and Norway are to start talks over the next few months, with the aim of being EC members by 1995

Despite the Swiss vote, the momentum towards EC enlargement is now unstoppable. The main reason behind Efta's desire for full membership is political rather than economic. The EEA confronts Efta states with EC legislation over which they have no control. In a narrow financial sense, full EC membership will bring the Efta countries additional burdens.

Because their per capita income is well above the EC average, all current EC applicants among the Efta states would be large net contributors to the Community budget. But the wish to play a full part in the political development of the Community – possible only if they are fully within it – appears to be paramount.

Even for Switzerland, which in the words of EC officials opted for "isolation" last month, the door to EC membership is not closed for all time. Mr Helmut Kohl, the perennially optimistic German Chancellor, believes that the Swiss electorate will eventually come round to accepting that joining the EC is in their country's best interests.

For several reasons, the Nordic and Alpine countries on the EC fringes generally believe they would suffer disadvantages if the EC forged ahead without them towards greater political and economic integration.

The inconveniences include the prospect of lower economic growth, as well as the likelihood that investments and jobs would flow towards the EC core.

The London-based Centre for Economic Policy Research last autumn estimated that membership of the EEA was likely to boost growth in Efta by 5 per cent over the next few years.

Most Efta nations – especially those with the status of neutral countries – are much more wary about the idea of Europe moving towards full-scale political union, involving pooling of powers in areas such as defence or criminal law. But there is considerable sympathy for the concept of greater political co-operation in fields such as immigration policy. And the Nordic states – in spite of, and partly because of, the autumn turbulence – are among Europe's most fervent devotees of monetary union.

This enthusiasm is not shared in Switzerland. In view of the Swiss franc's habitual hard currency status, the Swiss are no more eager to give it up for a single European currency than the Germans are their D-Mark.

With the anticipated entry of the Efta states in the mid-1990s, the EC's enlargement process will still be a long way from complete. Hungary, Poland, the Czech lands and Slovakia are waiting in the wings, while Malta, Cyprus and Turkey have longer-standing applications. However, all these states in the ante-room will certainly have to wait until the next century before they can accede to full membership.

In the meantime, they have little choice but to persist along the hard path of restructuring their economies and overhauling their political institutions. The non-Efta applicants see the EC above all as a means of bolstering their economies and encouraging financial transfers from the wealthier countries of Europe. The EC, however, views membership chiefly as a reward for economic achievement, rather than as a precondition for it.

All these poorer states face an uncomfortable, somewhat paradoxical, truth. Before they can join Europe's rich man's club, they will have to become richer themselves – by registering up to a decade of higher-than-average growth.

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THE EUROPEAN SINGLE MARKET 5

Edward Heath (UK). Prime minister 1970-74. Sturdy supporter of Euro-integration. Took Britain into EC in 1973

Helmut Schmidt (Germany). Chancellor 1974-82. Co-architect with Valéry Giscard d'Estaing of European Monetary System

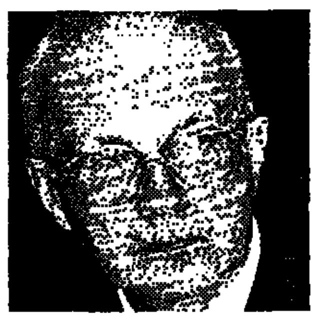
Roy Jenkins (UK). European Commission president, 1977-81. Championed EMS to stabilise European currencies

King Juan Carlos (Spain). On the throne since 1975. Pivotal figure in re-establishing Spanish democracy

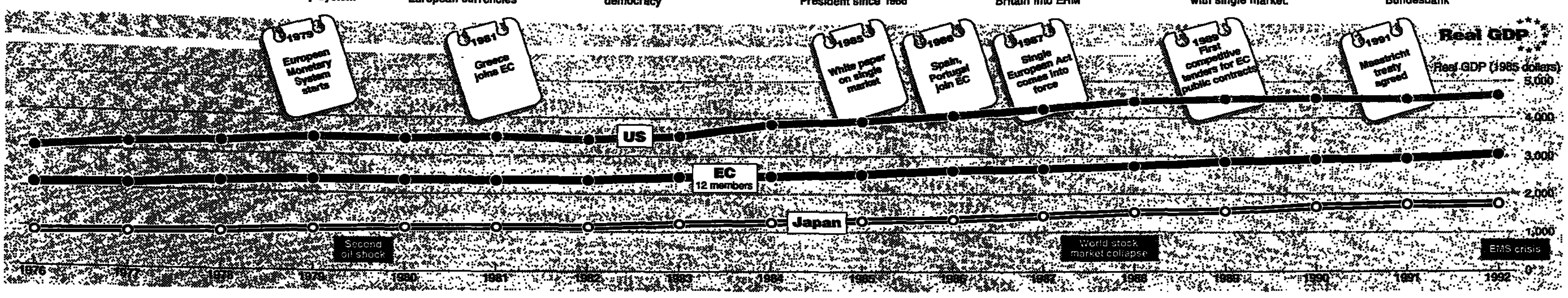
Mario Soares (Portugal). Helped bring in civilian rule as prime minister after military ousted. President since 1986

Margaret Thatcher (UK). Prime minister, 1979-1990. Opposed supranational Europe, but took Britain into ERM

Jacques Delors (France). Commission president since 1985. Emu hopes dented. But success with single market.



Helmut Schlesinger (Germany). President since 1991 of Europe's de facto central bank – the Bundesbank



Ian Davidson surveys Europe's 40-year route march towards a friendly union of historic enemies

It started with coal, iron and steel

TRADE liberalisation has consistently been the most successful aspect of the process of European integration, and the Single European Market brings it to a triumphant conclusion.

Paradoxically, however, Europe's political leaders have always, just as consistently, aspired to carry European integration into the superior uplands of high politics. In a sense, the history of the European Community is made up of the antithesis and alternation between these two themes.

From the beginning, the founder members of the European Community believed that they were engaged in an essentially political enterprise, and they made repeated attempts to put flesh on these aspirations. Yet, their efforts to build an integrated Community with an explicitly political character have run into repeated difficulties.

By contrast, the negotiation of the removal of barriers and the progressive liberation of trade turned out to be surprisingly quick and easy, first in the inaugural 1960s, and again in the past seven years.

The political aspirations of the high priests of European integration are apparent in the names they use: the Brussels-based organisation started out as the European Economic Community; it then became simply the European Community, and now in the Maastricht Treaty it is renamed simply the European Union.

Yet, the title which best matches its most unquestionable achievements is the unofficial name long used by most ordinary people: the Common Market.

Even as they were embarking on economic integration, the founding member states aimed to give their enterprise an explicitly political character. The Schuman Plan of 1950 broke new ground in economic cooperation and trade liberation, by bringing the coal and steel industries of the Six member states under common rules; but the ulterior purpose of this new economic enterprise, as described at the time by French foreign minister Robert Schuman, was mainly political, to make war between France and Germany not only "unthinkable but materially impossible".

Similarly, when the European Economic Community was formed at the end of that decade, the central treaty responsibility of Walter Hallstein, the first president of the European Commission, was to oversee the removal of internal customs duties and the installation of a common external tariff. But his constant refrain was: "We are not in business, we are in politics."

This antithesis between the political and the economic has meant that the history of the European Community has been marked by an alternation between attempts to get into overtly high politics, and lower-key phases of economic regulation and liberalisation.

Repeatedly, the political leaders from the six founding member states have tried to accelerate the pace of events, by building a new European bridgehead on the high ground of politics. Just as repeatedly, their political projects foundered. But each time they followed up their political defeats by new and usually successful initiatives in the field of economic or trade liberalisation.

This antithesis between high politics and pragmatic trade liberalisation has been the most consistent single theme in the running policy debate between the members of the Community, and it has regularly pitted the United Kingdom against the original Six. Indeed, that argument, which *is still going on today, is the* central key to the Community's development.

In the post-war negotiations which led to the creation of the Paris-based Organisation for European Economic Cooperation (now the Organisation for Economic Cooperation and Development), Britain opposed the supranational ideas advanced by France. In effect Britain won, because the OECD is still a loose organisation of sovereign states without supranational powers.

But the argument did not end there. The next time it was the French who won, since the primary characteristic of the first European Community, the European Coal and Steel Community (ECSC) founded in 1951, was that it had a High Authority with significant supranational powers. The British stayed away, but the Six went ahead.

Euphoria over the launch of the ECSC caused the Six, and especially the French, to underestimate the difficulties of political integration. When the Korean War broke out in 1950, and America pressed for the re-arming of West Germany, the Six threw themselves enthusiastically into negotiations for the creation of a European army. These concluded in 1952 with the signature of a treaty for a European Defence Community, from which the British again stood aside; but after long and fevered debates in France, the EDC treaty was eventually rejected in the French National Assembly in 1954, through the combined opposition of the Gaullists and the Communists.

The defeat of the EDC caused a major psychological shock among the Six. But the momentum behind the European idea was nevertheless so *strong that they quickly* developed another new initiative, for a Common Market. They negotiated the Treaty of Rome in 1955-57, and launched the European Economic Community (EEC) in 1958. Once again the British stayed away.

This was the moment when the Six finally began to find the right balance between politics and economic liberalisation, between pre-ordained objectives and future policy making.

In one sense the Rome Treaty was obviously an attempt to compensate for the failure of the Defence Community, by launching a more cautious initiative at the work-a-day level of trade liberalisation.

But the originality of the EEC was that it embedded the first policy objectives of the Rome Treaty, the elimination of internal tariffs and the creation of a customs union over a 12-year transition period, in an ingenious machinery of common institutions, so as to enable this new Community to improvise in the world after the customs union.

In practice, the removal of customs tariffs proved remarkably painless. The French had feared that their industry would be unable to compete with that of Germany; that was why they insisted from the outset that the industrial customs union must be balanced by a common agricultural policy. In the event, their fears proved groundless: like the other member states, their economy was buoyed up by the rapid growth of the 1960s, and the Six were able to complete their customs union in mid-1968, a year ahead of schedule.

The irony of this thriving Common Market was that it became the back-drop for a re-run of the old battles between nationalists and supranationalists. This time, however, it was France in the person of President Charles de Gaulle which championed the nationalist cause from within; while the British, who had refused membership when it was freely available, now wanted to join but were refused entry by the French.

□ Continued on Page 6

THE EUROPEAN SINGLE MARKET 6

THE TOP TEN EUROPEAN COMPANIES BY MARKET CAPITALISATION ON SEPTEMBER 30 1992

Ranking 1992	1991	company	country	Market Capital $m	Sector	Turnover This year $m	Turnover Last year $m	per cent change	Profit this year $m	Profit last year $m	per cent change	R O C E	employees	Year ending
1	1	Royal Dutch/Shell	N-UK	76049.7	212	95999.0	98192.0	-2.2	8990.2	13044.1	-31.1	15.2	135000	31/12/91
2	3	Glaxo Holdings	UK	38315.5	433	6769.1	5613.9	20.6	2358.3	2120.3	11.2	37.8	37083	30/06/92
3	2	BT	UK	35909.7	223	22041.0	21738.6	1.4	5078.5	5081.8	-0.1	24.8	219000	31/03/92
4	5	Unilever plc/NV	N-UK	31589.6	451	38279.6	37570.6	1.9	2961.5	2945.0	0.6	28.1	298000	31/12/91
5	8	Nestlé	SWI	27918.6	451	38270.2	35149.3	8.9	3194.4	2726.7	17.2	25	201139	31/12/91
6	18	Roche Holding	SWI	25018.2	622	8680.3	7330.2	18.4	1544.1	724.7	113.1	13.5	55134	31/12/91
7	6	Allianz Holding	GER	22570.7	151	0.0	0.0	0.0	1200.5	1306.9	-8.1	0	73300	31/12/91
8	9	Siemens	GER	21269.0	541	49130.8	42520.1	15.5	2300.7	1899.8	21.1	8.2	402000	30/09/91
9	15	BAT Industries	UK	20520.9	171	22834.2	24833.9	-8.1	1735.3	1591.5	9.0	6.1	212316	31/12/91
10	12	Deutsche Bank	GER	20329.3	112	0.0	0.0	0.0	2281.3	1585.1	43.9	20.8	71400	31/12/91

Tony Jackson looks at the development of industrial and competition policy

A house with glass walls

"The intellectual father of the single market, Lord Cockfield, once said that if all had known how much more competition the single market would result in, European industry and, surely, European governments would have been against it" – Martin Bangemann, EC industry commissioner.

FOR THOSE who believe that Europe should have an industrial policy, the beauty of the single market is that it represents such a policy in itself. In a unified market, runs the argument, companies can no longer hide their inefficiencies behind national barriers. Forced to operate on a truly competitive European stage, they thus enter a Darwinian process which produces regional champions capable of taking on the world's finest.

There will, of course, be casualties along the way. But, runs the argument, there should be at least as many winners as losers. The removal of trade barriers is in itself an important stimulus to economic growth, which will – in theory – make good any damage suffered by industry as a whole through increased competition.

However persuasive this argument, it suffers in the short term from two serious snags. First, far from enjoying immediate economic growth, the single market starts life in a fairly severe recession. It is unusually hard to be sure how long this will last or how severe it will prove, if only because it is partly due to the one-off effects of German unification.

Second, some of Europe's basic industries – steel in particular – are suffering the effects of the wider structural change in eastern Europe. It is again hard to be sure how long the influx of cheap manufactured commodities from the east will last. But there is room for pessimism. If a steel mill or petrochemical plant is not going to be replaced, it can be run purely for cash rather than profit. This is a particularly attractive option if the cash comes in the form of much-needed hard currency and the plant is relied upon for holding a community together.

Additionally, the single market will have the effect of exposing industry to greater competition from the industrial giants of the US and Japan. So it is not hard to see why it is viewed with mixed feelings by some European industrialists. In many cases, the net result is bound to be a competitive squeeze on profit margins. This raises the immediate question whether overheads and manning levels need to be squeezed as well.

This may be happening already. By the end of last year, the list of multinationals announcing large-scale job cuts in Europe was lengthening ominously. Part of this, however, was a conventional reaction to recession. Furthermore, job losses in the European car industry, for instance, must be seen in the context of continued controls on Japanese car imports until the year 2000.

Again, the 12,000 European job losses announced last month by IBM are a reminder that at least some European markets were exposed to the full force of international competition all along.

But there seems little doubt that as companies integrate their production around Europe – whether to take advantage of the single market or to protect themselves from its pressures – systematic job losses will result. The result, Mr Percy Barnevik, president of the engineering giant ABB, told the FT earlier this month, could be a shake-out of labour comparable to that seen in agriculture earlier this century.

Another element of industrial restructuring is to be expected as well. Mergers and joint ventures in European industry are by no means new: they are a consequence of industrial globalisation. But they are also a logical response to the challenges brought by the single market.

It is not easy to specify the extent to which these mergers have been due to the single market. The European food industry, for instance, has seen a particularly high level of takeover and merger in recent years, with multinationals such as Unilever, Nestlé and BSN increasing their dominance, and mere national players looking increasingly vulnerable. But this is largely the result of developments within the industry itself, such as the increased readiness of consumers to sample foreign food.

It is worth remembering that some of Europe's most important markets are not much affected by the single market. The pharmaceutical industry still has to satisfy the medical authorities in each EC country separately before it can sell new drugs. Airlines are still greatly restricted on the routes they can fly within the EC. Car-makers' protection from the Japanese will last until the end of the century. The steel industry is still protected and subsidised in many EC countries.

But in the long run, there is no doubt of the implications for industrial structure. The domestic market for individual European companies is becoming inexorably bigger. Another powerful stimulus for change comes through the gradual opening up of government contracts to competitive tender from companies from other EC countries. European industry is bound to respond by becoming leaner and larger.

One of the most important determinants will be EC competition policy. Sir Leon Brittan, head of the competition directorate until the end of last year, was seen as a champion of the British preference for unfettered competition. His successor, the Belgian socialist Mr Karel Van Miert, may come under greater pressure to promote a more French-style industrial policy, perhaps favouring regional champions through merger and acquisition.

Certainly, if the worst fears about the risks of the single market are realised, the clamour from Europe's industrialists for a more interventionist approach on restructuring can only become louder.

■ INSURANCE

Liberalisation will be a slow process

THE legal framework for a single European insurance market is now firmly in place but it will take years – possibly decades – for genuine liberalisation to occur.

Differences in taxation and contract law constitute real obstacles to cross border trade, especially in life, home and motor insurance.

After moving at a faster rate than many would have predicted three years ago, the European Commission has this year approved a raft of directives aimed at liberalising the market for both life and non-life insurance.

The legislation, which governments must implement from 1994 onwards, will open Europe's most protected markets to more competition and represents a victory for advocates of greater liberalisation.

Under the "single licence", insurers from any member state will be free to trade in any other member state, under home country rules.

At the same time EC members are now committed to dismantling the vestiges of the highly regulated regime. For example, governments cannot demand prior approval of policy conditions or premium rates or require companies to invest in a particular category of assets. That could have an important impact on insurers in Germany, Italy and Belgium, for example, where the motor insurance market is highly regulated.

Even so, genuine cross-border trading is still some way off. Insurers in different member states operate under very different tax rules. Most continental countries allow insurers much more freedom to build up tax-free reserves, while the room for manoeuvre of UK companies in this respect is still sharply circumscribed. Some life insurers must pay taxes on premiums, others do not.

Variations in legal regimes and the lack of a single contract law system will also hinder trade in insurance. According to London solicitors Lovell White Durrant "the diversity of contract law means that any comparison of one insurance product with another becomes unbelievably complicated for the layman".

'The diversity of contract law means that any comparison of one insurance product with another becomes unbelievably complicated for the layman'

Penetration of some markets – especially those such as the German, French and Italian, where retail networks are dominated by extensive networks of tied agents, selling the products of just one company, rather than independent brokers – will be tough.

So far Europe's biggest markets – the UK, France, Germany and Italy – are still dominated by domestic companies, although some players are now beginning to win significant shares of neighbouring markets, either through outright acquisition or by the purchase of significant share stakes.

Germany's Allianz has an important share of the Italian market through its acquisition of RAS, while France's Assurances Générales de France (AGF) could eventually win important influence in the German market if its current attempts to control Aachener and Muenchener – Germany's third biggest insurers – are successful.

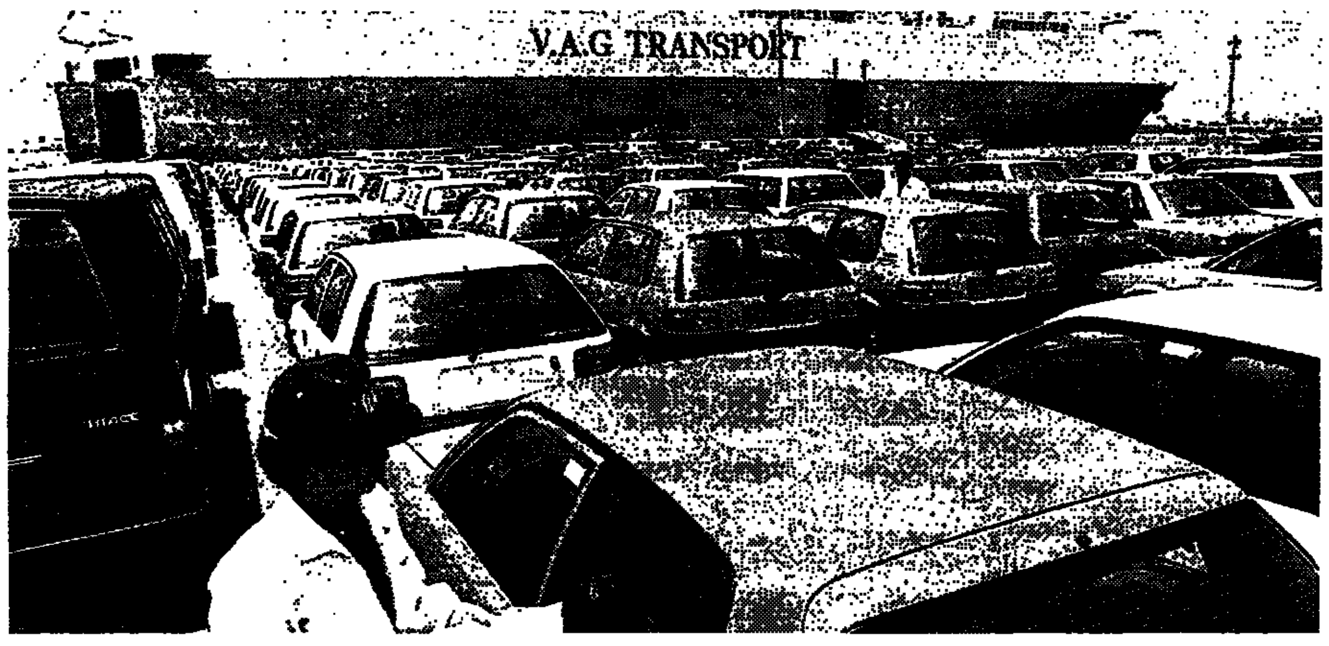
France's privately-owned Victoire has also made important headway by acquiring Colonia, Germany's second biggest insurer, in 1989. Victoire is currently engaged in a long drawn-out battle with its nationalised rival, Union des Assurances de Paris, for control of the company and a string of other European companies to which it is linked.

Elsewhere Italy's Generali as well as several French, Swiss, German and Dutch companies are expanding in the rapidly growing Spanish and Portuguese markets, while AGF is a dominant player in the Irish market.

Companies, such as Switzerland's Zurich and Winterthur, and Germany's Allianz have built up strong shares of the continent's market for commercial risks business (the policies bought by larger industrial and financial companies).

By contrast UK companies have recently made relatively little impact in Europe, although Commercial Union's Delta Lloyd subsidiary has an important share of the Dutch market.

Richard Lapper



CHALLENGE: Toyota cars for export waiting to be loaded on to a ship at the Toyota Nagoya Wharf Centre, Japan

RESPONSE: ranks of Peugeot and Citroën await export in a field near Calais, France

David Dodwell gauges the Community's protectionist leanings

A free trade area but . . .

THE creation of the single market has for several years aroused fears that the world is poised to collapse into competing trade blocks. Fears have been inflamed by the recent progress towards a North American Free Trade Area. With apologies to Mark Twain, reports of the death of free trade have been greatly exaggerated.

However, the dangers of Europe turning inward should not be dismissed out of hand, although these have been linked more with the wider evolution of the EC than with the creation of the single market as such.

There is inside the EC a north-south divide which separates northern members who are keener to encourage free trade from southern member states with strong protectionist tendencies. For example, the large number of French companies with state investments inhibits free trade within that market for a number of products. So do policies in Italy favouring local manufacturers.

State supports for strategic industries, or "national champions", and government procurement rules that keep foreign competitors at bay are also born out of protectionist reflexes.

These reflexes have been stiffened towards countries outside the wider European region as EC member states have realised that, for reasons of political as much as economic security, countries in eastern and central Europe must be given improved access to the EC market. So far, offers of improved market access to the former Comecon countries have been derisory, and even these have been eroded by dumping actions against some of the more successful exporters from Poland and Czechoslovakia. But in due course they are likely to be improved.

The high level of trade conducted within the community – it averages about 60 per cent, and peaks at 75 per cent with Portugal – makes trade with other parts of the world less significant than for countries in other regions. By comparison, the US relies on the north and south American region for just 35 per cent of its exports, while Japan sells 36 per cent of its exports in the Asia-Pacific area.

However, this does not mean a "Fortress Europe" is a particularly attractive option to most EC industries. Unlike countries elsewhere, those in Europe are unusually dependent on international trade. Germany's exports account for 26 per cent of its GDP – not far from the EC average – while Ireland's exports account for 56 per cent of GDP. This compares with just 7.4 per cent for the US, and 9.4 per cent for Japan.

For countries so heavily dependent on international trade, EC member states have as much to fear from competing trade blocks as any. The emergence of the North American Free Trade Area – embracing the US, Canada and Mexico – and of a wider western hemispheric trading region given form by President Bush's Enterprise for the Americas initiative, has given EC exporters clear warning of the price that could be paid for raising protectionist walls around Europe. At present, neither the single market nor Nafta need take a protectionist form. But they provide the institutional means for this to happen if the mood should change.

For these reasons, it is not surprising that Europe's trading partners have refused to dismiss the danger of emergent protectionism around the creation of the single market. Japanese foreign investment in Europe surged during the second half of the 1980s as companies pre-emptively established a production capability inside the EC.

Some of this was doubtless triggered by the new opportunities arising out of the chance the single market provides to serve so large an integrated market from just one or two locations. But some was also "just in case" investment, to avert the danger of losing access to important markets if the single market raised effective protection around the EC.

A perverse consequence of this flood of inward investment has been to divert investment from European countries outside the EC, in particular the Efta countries. It is this – coupled with the fact that the Efta group relies on the EC for two thirds of its exports – that has encouraged countries such as Sweden to press so urgently for full EC membership.

However, obsession with the protectionist dangers of the single market have clouded the trade-liberalising consequences of the change. Companies in each EC member state that have in the past been hampered by national barriers to trade are set to see almost all institutional obstacles fall to free trade across the whole community.

Exporters to Europe which currently have to deal with 12 different sets of export documentation, negotiating market access, and distribution arrangements country by country, will from January have to jump just one set of hurdles. Once goods land in one EC country, they can be moved freely across a market of 344m people, without border controls, or other checks, providing a marvellous opportunity to rationalise and improve distribution.

In due course, standards of all kinds will be harmonised, whether for regulations for electricity sockets, safety standards or food additives, giving exporters and domestic manufacturers the same considerable scope to simplify production and packaging arrangements.

But whether or not the single market will raise or lower effective protection will also depend heavily on the outcome of the long-delayed Uruguay Round of talks aimed at reduction of barriers to international trade.

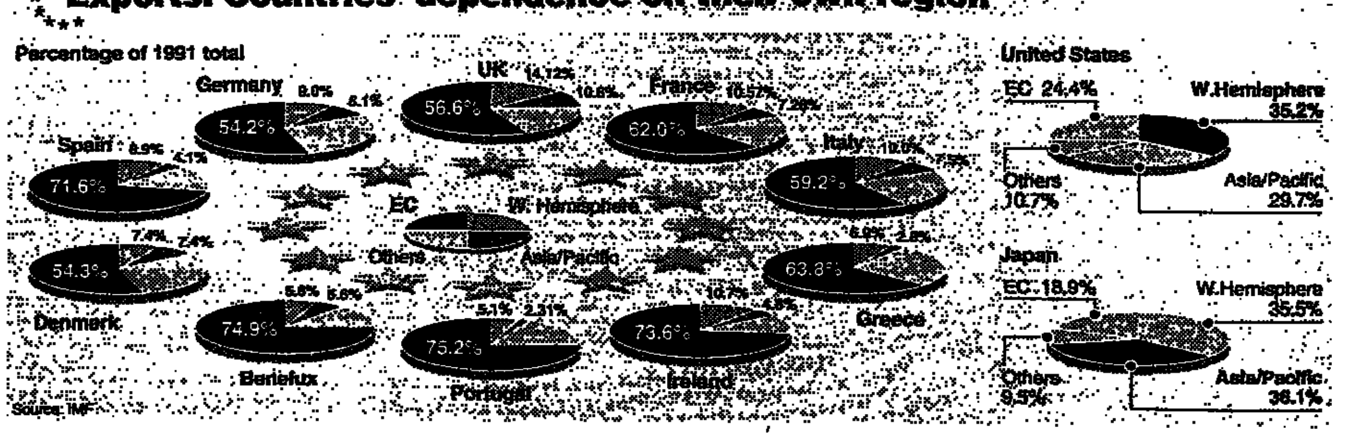
The outcome of these talks, which have crept inconclusively forward for six years, remains uncertain.

But in so far as the draft agreement published a year ago, and negotiations up to the end of 1992, provide a guide, the Uruguay Round would reduce protection in farm trade, cut tariffs in a number of industrial sectors to zero, set a 10 year timetable for dismantling protection in textiles and garments, and open up a number of service industries – including banking and insurance, audio-visual services and shipping.

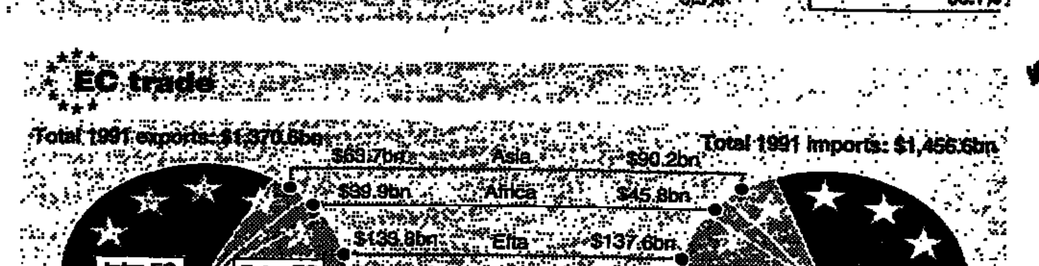
The Uruguay Round would set stricter rules for deciding whether or not an exporter to the EC is dumping. This will be of particular importance to Japan, the Asian "tigers", and the liberalising countries of central Europe, since the EC, with the US, is quick to take anti-dumping actions to protect domestic industries that are inefficient, vulnerable, or simply powerful.

But neither the Uruguay Round, nor the establishment of the single market, will overnight remove all inconsistencies in trade policy between EC member states. It will take at least six months for national quota arrangements for banana imports to be harmonised. Rationalisation of textiles quotas, quotas on shoes and bicycles, and of "voluntary restraint agreements" on imported cars may take longer still to sort out.

Exports: Countries' dependence on their own region



EC trade



Europe's 40-year march to unity

☐ Continued from Page 3

In 1961-62 de Gaulle tried to emasculate the European Community with a new inter-governmental Treaty restoring political authority to the member states. And in 1965 he returned to the fray, with a frontal attack on the principle of majority voting under the Rome Treaty. Neither attack succeeded; but the second left the Community bruised and politically traumatised.

This political trauma lasted long after de Gaulle left the scene in 1969. For the euphoria of the rapid economic growth of the 1960s gave way to Europessimism in the 1970s and early 1980s.

The international monetary system was thrown off balance by the US abandonment of Bretton Woods in 1971. The world economy was thrown into stagflation by the two oil crises of 1974 and 1979. And inside the Community, it became apparent that tariff liberalisation was only the first step towards a free market; member states were compensating for the slow-down with national regulations, state subsidies and industrial policies whose purpose and effect was protectionism.

The Community attempted to grapple with the consequences of the slow-down, by searching for a follow-on programme for the customs union. In 1969 it issued a declaratory call for an Economic and Monetary Union in Europe, and again in 1972; but in practice nothing became of the idea.

It was not until the end of the decade that Europe began to recover its inventive energy. In 1979, President Giscard d'Estaing of France and Chancellor Helmut Schmidt of Germany provided their solution to the instability of the international monetary system, with their scheme for a European Monetary System (EMS), which has since become the basic building block of the more recent plans for Economic and Monetary Union.

Five years later (in 1985) the Twelve resolved that they must after all settle down to turning the customs union into a true Common Market, by removing the many remaining non-tariff barriers and other obstacles to complete commercial freedom.

Mrs Margaret Thatcher, the then British prime minister, saw the Single European Act as an attractively free-trade alternative to the more politically ambitious projects which France and Germany seemed to be promoting.

But as so often in the EC, Mrs Thatcher's ideological victory in favour of simple free trade turned out to be more incomplete and more treacherous than she may have hoped.

The immediate price of a commitment to a single European market, with its four freedoms for goods, persons, services and capital, was a significant enlargement of the role of majority voting. The deferred price, was that the logic of the single market paved the way for the Delors report, which in turn paved the way for the Maastricht Treaty and the programme for Economic and Monetary Union.

These latest grand schemes have not necessarily been any better designed than the EDC of 1952, and they may collapse under their own weight. But the central fact about the Maastricht treaty is that it is an attempt to unite, at a high level, the political and the economic themes of European integration.

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THE EUROPEAN SINGLE MARKET 7

Andrew Hill probes sensitive areas where unity is elusive

Deferrals and omissions make progress patchy

THE single market was always going to be a patchwork. Nobody ever expected a flawless barrier-free area to take shape at midnight on December 31, 1992, however much the politicians like to say that it has.

Instead, the single market has been an evolutionary programme of measures, with different elements coming into force at different times.

Many of the most important changes have already happened. For example, exchange controls were lifted in eight countries – all except Portugal, Ireland, Greece and Spain – by July 1990.

The first legislation to open up the market for public procurement, worth 15 per cent of the European Community's gross national product, came into effect as early as the beginning of 1989. Graduates' qualifications have been recognised across all 12 member states for the past two years.

But in spite of the surprising speed with which the European Commission and member states have worked to adopt and enforce single market legislation there are still some notable gaps, which it will take many years and much political negotiation to fill. Broadly, they divide into three areas: delays, deferrals and omissions.

● Delays: These are the measures which have not taken full effect, even though they have been adopted by member states, because they have yet to be properly implemented or transferred into national law.

Such delays are occurring in all areas of single market law. According to some analyses, less than 50 per cent of Lord Cockfield's 280 or so measures have been transferred into the national law of all 12 member states.

Commission officials play down this figure. They point out that the original legislation makes clear that all adopted measures come into force on January 1, 1993, even if they have not been transferred into national law.

Thus, consumers or traders who believe that they are being deprived of the benefits of the single market by their government's sluggishness can take the national authority to court.

More worryingly for the barrier-free market, efficient member states – such as Denmark, which has transposed more than 95 per cent of the relevant legislation – could theoretically block the import of goods manufactured under rules which had not been altered to conform with single market law.

In practice, EC business is already upset about the burdens allegedly imposed by the transitional system

● Deferrals: The single market is riddled with deferrals – or "derogations" in EC jargon – usually written into legislation to ease a political agreement, or because it will take time to implement a measure. Frequently they apply only to one or two member states, sometimes to a specific industry.

The most obvious example is the "transitional" system for collection and administration of value added tax (VAT). Member states agreed a system which allowed border controls to be abolished on January 1. But this is, in theory, only a temporary measure, and the Commission still envisages the installation of a permanent VAT system in 1997.

Under this permanent system businesses would benefit from the same advantages as consumers, who can now buy all goods, except cars and mail-order items, at local VAT rates. In practice, EC business is already upset about the burdens allegedly imposed by the transitional system, and may resist another change as early as 1997.

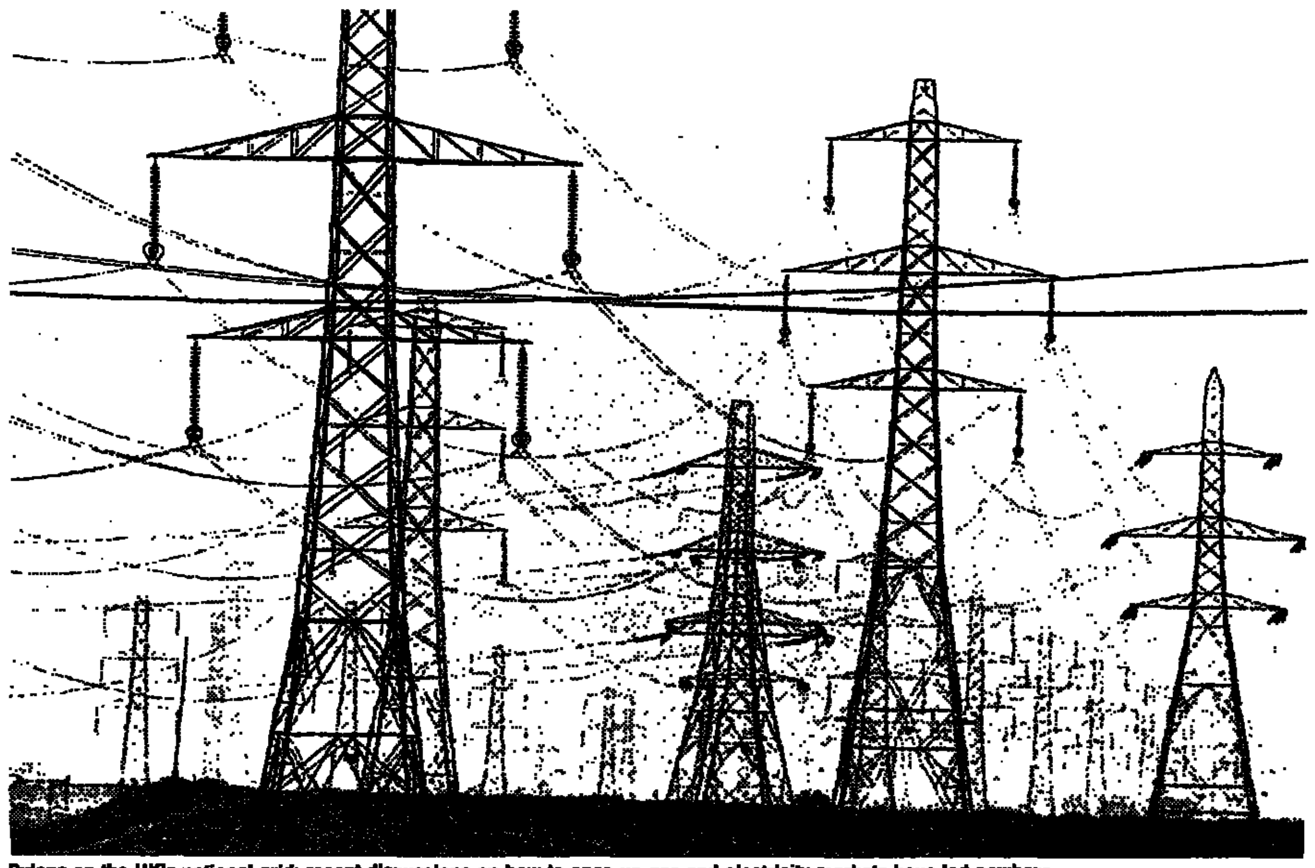
Other important derogations include: freedom for insurance companies to set up and do business across the Community (July 1994); the "single passport" for stockbrokers and banks to deal shares across the EC (January 1996, with banks' access to exchanges in Spain, Portugal and Greece delayed still further); and open competition for airlines, which have been able to set any fare they want from January 1, but will not be able to fly any route they choose (including "domestic" flights in one member state) before April 1997.

● Omissions: These are areas which are usually so sensitive that member states have been unable to agree. In most cases they were not even part of the single market programme:

● Energy. Energy liberalisation was excluded from the 1985 Cockfield white paper, and recent discussions on how to open up gas and electricity markets have led nowhere.

Member states have already, albeit reluctantly, agreed to allow some cross-border transit of electricity and gas, and some countries favour linked proposals to improve the transparency of companies' accounts and end monopoly rights over electricity production and the construction of energy networks. But they balk at the idea of giving consumers the right to buy their energy from any supplier in the EC.

Commission proposals should have given large users the right to "third party access", as it is known, from January 1, with the possibility of small users being granted the benefits from 1996. But the UK, the EC's strongest advocate of energy liberalisation, ran up against heavy opposition during its presidency of the Community and the measures have not been agreed.



Pylons on the UK's national grid: recent discussions on how to open up gas and electricity markets have led nowhere

● Telecoms. The Commission, often using special powers to override EC members' objections, has already pushed through measures to liberalise the EC market in telecoms services and equipment. But it has fought shy of putting pressure on member states to liberalise the most obvious area – ordinary phone calls.

A long-awaited review of the sector, published by the Commission in October, pointed out that the cost of cross-border telephone calls in the EC was excessive but said there would have to be yet more consultation with the industry and consumers before legislation could be introduced.

Progress has been slowest in company law as member states see this as less vital than was originally thought

● Postal services. Moves to open up mail services to competition are lagging behind liberalisation of the telecoms sector, but the story is roughly the same. A discussion paper produced by the Commission last May stepped back from suggesting immediate liberalisation of mail services, although in due course Brussels may produce legislation to open up direct mail, cross-border and express postal services.

● Company law. This is the area of the single market white paper where progress has been slowest. That is not because the measures under consideration are particularly sensitive – although Britain, among others, objects to clauses on worker participation – but because member states seem to have decided that such legislation is less essential than Lord Cockfield and his colleagues originally thought. Even moves to agree a voluntary European Company Statute for multinationals have stalled over the last year, while a measure to harmonise takeover procedure across the Community has been dropped altogether. (See separate article.)

● A single currency. This is so obvious that it is often overlooked. EC leaders agreed at Maastricht that a single currency would be in place by 1999 at the latest, but that "deadline" is subject to ratification of the treaty by national parliaments and to strict economic criteria.

Logic says that the Ecu would be an indispensable part of the single market; politics – notably in Denmark and the UK – could mean that it ends up the most important omission of the lot.

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THE EUROPEAN SINGLE MARKET 8

From the London Evening Standard of April 11 1962

Matching consumers with products is the challenge facing corporations, writes **Gary Mead**

Variety remains the spice of life

THE idea that we are now in a new era of EC-wide consumer homogeneity would please consumer goods' brand managers everywhere – it would make life a lot more simple – but we are far from that.

The member states of the European Community still have vastly differing national legislation on just about every facet of consumer life; everything from toy advertising to a legal definition of low alcohol beer has yet to be harmonised. And as bigger fish – such as a common currency, or common taxation policies – have yet to be fully fried, subsidiarity, the principle permitting decisions to be made at the lowest possible level of community life, is likely to be applied with regularity when it comes to consumer matters.

All manner of issues affecting not only consumer choice but manufacturing and exporting plans have yet to be determined. While the EC has abandoned plans to compile "recipe laws" stipulating what a particular product must contain, proposals on minimum standards of food hygiene, labelling and the use of additives have yet to be agreed on.

Some barriers have come down; a product legally available in one member state must be allowed into the other 11 – which will pose problems in many areas, not least that of pornography.

Other areas of as yet untested freedom of consumer choice include the removal of restrictions on imports of duty and VAT paid goods. In the UK the law may swiftly be rendered absurd. The customs and excise have suggested import limits "for personal use" of 10 litres of spirits, 90 litres of wine, 110 litres of beer and 800 cigarettes; anything above that may be deemed for "commercial use" and thus subject to UK imposed duty. The restrictions currently imposed on duty or VAT free goods will continue in place until June 30, 1999.

Given the discrepancies between duty levels in the UK and elsewhere in the EC on alcohol and tobacco, the single market's most immediate effect in consumer terms may well be to give a boost to the vehicle rental businesses of south coast ports, as people rent trucks to stock up across the Channel.

Some significant consumer legislation will take time to filter through, particularly the EC's product safety directive – which applies from June 1994 – which states that goods must be safe during "normal or reasonably foreseeable use" and unlike current UK legislation will also apply to second-hand products – threatening severely to dent the popularity of car boot sales, one of the few growth areas of the UK economy in recent times. All EC countries will be required to implement a scheme to withdraw dangerous products from the market.

Differences between the various member states are likely to defeat attempts to cajole them into homogeneity

Another consumer-friendly piece of legislation will start to make itself felt in early 1993, an "eco-label" on domestic electrical products, showing that they meet certain energy and water efficiency criteria. Eventually this labelling is expected to be carried by all manufacturers of such products.

Draft EC legislation on food claims in advertising is likely to be adopted by the Commission early this year, and is expected to establish a general principle that claims should not be false or misleading. Claims made in food advertising will have to be substantiated on the label. Responsibility for regulating claims will probably rest with delegated authorities of the member states.

But these and other legislative manoeuvres affecting advertisers and consumers, the sub-text of which sometimes appears to be the construction of a standardised consumer rather than a standardised consumable, need to be seen in the context of subterranean changes occuring in the fabric of European society.

The differences between the various member states' populations, their habits and preferences are likely to defeat attempts to cajole them into homogeneity. The EC is more complex in its internal divisions and perhaps more resistant to imposed legislative change than its Eurocrats might wish.

For one thing, certain member states are likely to show much faster population growth than others; some will contract. According to the marketing research organisation NTC, over the next 30 years the Netherlands' population is expected to increase by more than 13 per cent, while Italy's will shrink by 7.4 per cent. Growth is expected in the UK, Portugal, Greece and France, while Ireland, Denmark, Spain, Germany and Belgium are all likely to follow Italy's downward path.

Overlaying that are profound changes already at work in the structure of the family, none of which lend themselves to the positing of a pan-European pattern. While it is estimated that 5 per cent of all families in the EC are now single-parent, 81 per cent of those are located in the north-west of Europe; in Denmark, more than 25 per cent of families with children are headed by a single parent.

A north-south divide exists within the EC over the nature of the family, with the traditional family structure holding up in the southern EC members, and crumbling in its northern.

Regional disparities present problems for companies marketing their products from a fixed global viewpoint

Moreover, other evidence suggests that while there exists a superficial appearance of homogeneity of certain important factors – such as personal disposable income – on a national level, regional disparities are cropping up throughout the EC.

According to research by the Henley Centre for Forecasting *(Frontiers 1991/1992)*, "the divergence in prosperity across European regions is often wider within countries than across them. Italians from Lombardy have a personal disposable income twice as high as that as of consumers in Campania or Calabria ... consumers in the Balearics or Catalonia have 60 per cent more disposable income than consumers from Extremadura or Andalucia."

Such regional disparities inordinately complicate the business plans of companies seeking to market their products from a fixed global viewpoint.

While it might make perfect cost sense to forge ahead with a pan-European television advertising campaign for a branded consumer item when looked at purely from intra-national levels, it might be less attractive when it is realised that nationally-calculated figures often disguise considerable regional differences.

The EC's own data suggest that average per capita income disparities are widening; in the 25 poorest regions of the EC it fell to 56 per cent (from 57 per cent) of the EC average between 1980-88, while in the 25 richest regions it grew to 137 per cent (from 135 per cent).

One of the central objects of Maastricht is the creation of common European citizenship. Large global corporations have been slowly adopting globally-aimed advertising strategies, in the belief that consumers the world over are gradually losing their differences.

Up to a point that may be true. But the challenge for corporations within the single market will be highly complicated. First they must understand the developing legislative, economic, social and demographic distinctions within the single market.

Then they need to finely tune their marketing decisions for successful communication via the plethora of new, highly fragmented, media outlets – particularly the continuing explosion of satellite and cable television channels, which, with the imminent technological revolution of digital compression, will mean even more broadcasting possibilities.

Somewhere out there is a consumer who perfectly matches your product. The growing problem will be identifying where they live and letting them know you, too, exist.

Centraal Station, Amsterdam: of the four freedoms – movement of capital, goods, services and people – only the first three have been realised

Children at Euro Disney: EC leaders concluded in the second half of last year that decision-making had to be brought "closer to the people"

David Gardner finds that ordinary people have yet to feel the benefits of the Community

Citizens sceptical about their prospects

THE YEAR of the completion of the single market has also been the year in which the Maastricht treaty tottered on the brink, mainly because of a loss of confidence by Europe's citizens in the Community's leaders, institutions, and policy-making.

"Ever closer union" among European nations is not widely perceived to be creating a Europe for people – a democratic polity in which sovereign member states work supranationally producing visible benefits for their citizens.

The EC is increasingly seen as an organisation which does rather more for business than for people; is undemocratic, intrusive and unaccountable; and which by hyperintensifying competition in European industry contributes to destroying rather than creating jobs.

That this is not an altogether accurate, fair or complete picture is beside the point. European Commission president Jacques Delors summarised the situation five days before the Maastricht treaty squeaked through September's referendum in France: "Either Europe will become more and more democratic ... or Europe will be no more". If citizens are not persuaded there is something in it for them, then the game is up.

Since "Europe" came into being 40 years ago, it has been the enterprise of the élites. The Paris weekly, *Le Nouvel Observateur*, captured how most people visualise its workings just before the French referendum. It published a photograph of a sharp-suited man against a backdrop of the 12-starred EC flag – with a paper bag over his head.

In spite of its remoteness and facelessness, the EC's overwhelming benefit to people has been its interlocking of national interests in a way which precludes war between Europe's leading powers. But that benefit is now taken for granted. Modern Europeans have discounted it, and fear EC centralisation. Yet, at the same time, they expect of the Community practical benefits, such as job-creation, which it does not really have the power to deliver.

Throughout the almost glacial progress of European integration, the member states have guarded their national prerogatives jealously. As a quasi-federation, the EC has been built up almost back-to-front.

Whereas a conventional federal system, such as the US or Germany, starts by pooling obvious central powers such as foreign policy and defence, macroeconomic co-ordination and monetary policy, the EC started with modest items like coal and steel, wheat and milk. Only through the still unratified Maastricht treaty has it broached a common foreign and security policy and a single currency.

The relaunch of EC integration, moreover, came through the single market, a battery of 282 measures designed to create a barrier-free economy in Europe. The Twelve organised this exercise centrally, to the extent that not all member states trusted their partners to flatten their part of the level playing field. For the average citizen, however, the experience appears to have been mixed.

Many of the single market measures have appeared intrusive, and at first glance often seem more properly the concern of local councils, rather than unelected bureaucrats and national ministers making decisions behind closed doors in Brussels.

At one level, there has been a bonanza of tabloid headlines on "Brussels Euro-lunacies" ranging from alleged plans to suppress prawn cocktail crisps to decrees defining a standard Euro-condom. But alongside the trivia, there is genuine concern about the effect of many of the measures that have been adopted over the past four years.

Of the single market's four freedoms – in the movement of capital, goods, services and people – only the first three have been realised. This achievement has increased competition during a European downturn and rising unemployment.

Taken together with the failure to agree free movement across borders for people, the overall enterprise looks a lop-sided bargain, tilted heavily towards business.

EC leaders – most of them unpopular at home and eager to pass the buck to the European Commission for misfired EC measures that national ministers decide on – concluded in the second half of last year that decision-making had to be brought "closer to the people".

No populists they, the 12 heads of government chose as their primary vehicle "subsidiarity" – meaning that there should only be action at EC level when national or local measures would be ineffectual.

While subsidiarity was never going to enter anybody's vernacular, this debate quickly moved from quasi-theology to naked power politics. Big member states such as the UK and Germany tried – and failed – to use it to emasculate the monopoly right of the Commission to propose measures, which is viewed by the smaller and poorer EC members as the guarantor of their interests in the Community.

Then the Euro-sceptical UK, which held the EC presidency in the second half of last year, tried to roll back some 65 laws and proposals strengthening workers' and consumers' rights, and environmental standards.

These are the most popular policy areas, particularly in the semi-detached member state of Denmark, for whose voters subsidiarity was put on the agenda after they rejected Maastricht last June.

At December's Edinburgh summit, an agreement was reached, preserving the balance of power in the EC. It will make Brussels more cautious about the ideas it brings forward and the closed-door Council of Ministers of the Twelve more user-friendly, since important policy debates will, from February 1, be televised for the press.

There is a danger, however, that Brussels will be inhibited in acting in areas such as the environment and free movement for people, for fear of upsetting member governments.

The subsidiarity debate was handled with opportunism by governments so that mud stuck to "Brussels" – synonymous in most people's minds with the whole European enterprise. It also served as a smokescreen to obscure the real issues of democracy and accountability.

It is unlikely that the EC can continue for long in this way. This is not because there is some mass movement rattling the Eurocracy's gates demanding to be let in, but because, on the contrary, apathy and resentment are increasingly denying popular legitimacy to the EC – as last year's polls, referenda and restive national parliaments demonstrated.

To reverse this, EC decisions will have to be seen to be more open, more scrutinised in the European Parliament and national parliaments. And their content will have to be more popular, if not populist – giving citizens a greater stake in Europe.

Corporate strategy: why a US appliance giant sided with Philips

A Whirlpool romance

WHIRLPOOL is the largest large domestic appliance manufacturer in the world. Yet, by the late 1980s, the Michigan-based company had virtually no presence in Europe.

This was an omission widely acknowledged at the manufacturer's top ranks. David Whitman, the company's chairman, has said that his company mapped out a long-term strategy in the mid-1980s which recognised that there was little growth to be had in the US appliance market, that there was more likely to be solid demand and future growth overseas, and that there would be substantial lowering, or removal of trade barriers in Europe by 1992.

In fact, the company's internal estimates suggested that by 1993, western Europe would account for a larger proportion of global appliance demand than the US.

By 1987, Whirlpool was talking to Philips, the Dutch electronics group and Europe's number one appliance manufacturer. Those discussions were interrupted by the crash in the world stockmarkets, but by August of the following year, the two companies had struck a deal. Whirlpool paid Philips around $500m for a 53 per cent stake in a new joint venture company, which – to all intents and purposes – took over Philips' large domestic appliance division.

At the time, both companies envisaged that Whirlpool might become the sole owner of the European business – Philips with the right to sell its minority stake to the US company and the US company with the right to ask the Dutch to sell. Three years later everything went to plan; Whirlpool duly bought out the remaining 47 per cent of the equity for about $610m.

The relatively slow hand-over of the Philips business was mirrored at the operational level. Whirlpool recognised at the outset that its own name – although extremely familiar to the average shopper in the US – would carry little weight in Europe, compared with the old-established Philips brand.

With this in mind, Whirlpool was given the right to use the Philips name on appliances in Europe until 1998 – long after the potential buy-out of the remaining minority stake, and the date set for European harmonisation. Accordingly, the company decided, in early 1990, to adopt a "dual-branding" approach to products marketed in Europe. It placed both companies' names on products it was selling in the European market, with a view to phasing out the Philips tag once its own name gained recognition.

Alongside the middle-range Philips/Whirlpool brand, it continued to develop the "Bauknecht" name as a premium high-end brand and to use the "Ignis" and "Laden" names for "value-conscious" consumers.

Brand transfers have worked in the past – and Whirlpool says its programme is ahead of schedule. It is now advertising solely under its own name in four European markets, including the UK, although product packaging still carries dual-branding there. It plans to move to pure single-branding in a few selected markets next year.

On the operational front, Whirlpool's approach has also changed over time. In 1991, it effectively created two business units – one to support the Bauknecht brand and one to market Philips/Whirlpool, Ignis and Laden products. Marketing and sales activities for the brands were to remain separate in each country, while after-sales services were consolidated into single offices in each market.

Last autumn, the company announced that it was creating three distinct sales regions within the EC. The first encompasses Germany, Austria, Switzerland, the Netherlands and Denmark; the second embraces France, Spain, Portugal and Belgium; Norway, Ireland, Finland and the UK make up the third. In addition, Italy remains a separately-managed area, as are the interests in Czechoslovakia and Hungary.

Support services and sales resources will be shared within these regions, and a new central logistics department would aim to maximise distribution efficiency. The aim is to replace the previous, fragmented national warehouse network with regional distribution centres, as the trade barriers between countries come down and Europe's transportation industry is steadily deregulated.

Finally, on the manufacturing front, there has been a general reorganisation around product groups – a process which has been proceeding for some time. Laundry and dishwasher development centres will be located in Germany and refrigeration and cooking product centres in Italy.

Nikki Tait

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Women will get a growing share of jobs, writes **Catherine Milton**

Sex equality is not all that it seems

Crêpe stall in Paris: 'female part-timers are more restricted to a limited range of low paid, low status jobs than female full-timers'

WOMEN are likely to win the bulk of the new jobs expected to be created in the European Community over the next two decades. This may, however, have some double-edged consequences for both national labour markets and for women themselves.

It could contribute to the continuing high levels of EC unemployment. One reason EC joblessness has continued at such levels is that about 70 per cent of the new jobs created between the end of 1985 and the end of 1990 went to previously unwaged women, rather than the registered unemployed.

This trend appears to be entrenched. The European Commission predicts that previously unwaged women will take up most of the 25m new jobs it expects by 2010.

The consequences for women themselves are far from straightforward. Their position in the future EC will depend in large part on whether they are working full or part-time and on the national labour market systems within which they work.

Recent research*, as yet unpublished, has found that women's work is polarising, both between different groups of women workers and across the different member states (Data was not available for Italy).

The research, which was completed for the European Commission's Network of Experts on the Situation of Women in the Labour Market, says: "Women's increasing participation in all the labour markets of the EC over the past decade might be expected to indicate increasing convergence in the labour market positions of men and women. Evidence ... suggests no such expectation is justified."

In some EC states and occupations, part-time work is less of a barrier to professional status than in others

About 30 per cent of the jobs created between 1985 and 1990 were part-time and EC employers are expected to increase their demand for part-time workers, many of whom are likely to be women, over the next two decades.

The research, which is based on an analysis of the most comprehensive labour market data available for EC countries, supports the recent finding by the OECD that "female part-timers are more restricted to a limited range of low paid, low status jobs than female full-timers".

In all EC countries women part-timers are more likely to work in female-dominated or "feminised" occupations than full-timers. Part-timers are also more likely to be in lower level jobs than are women full-timers.

The researchers warn that overall measures of occupational segregation may, however, mask divergent trends and levels of segregation for full-time women workers, compared with part-timers and between the different EC labour markets.

The report says: "Overall measures of segregation are not necessarily very revealing as the net change reflects the result of two trends pulling in opposite directions: firstly a tendency for women to be increasing their share of professional and higher level jobs, but secondly a tendency for women also to be increasing their concentration of employment in sectors where they were already heavily overrepresented, notably in clerical and some service sectors."

The research reveals that women's status at work varies considerably, even between those member states with similar levels of development and of female participation in the labour market.

For example, in the UK female part-timers dominate lower level jobs in catering, whereas in France both full and part-timer of both sexes are more evenly represented in these jobs.

Also, in some EC countries and occupations, part-time work is less of a barrier to professional status than in others. In female-dominated professions such as teaching, for example, part-time women workers have a relatively higher share of professional jobs in Germany, Greece and the Netherlands.

In contrast, in Denmark, France, Portugal and the UK part-timers generally have a lower share of the professional jobs or have shares only equal to their share of all jobs in the total labour market.

The research says: "This example suggests that within feminised professions, there is considerable scope for variety in the extent to which part-time working is utilised and in some countries part-time work may be just as common in professional areas."

The study appears to undermine the argument that it is necessary for women to work in the lower level part-time jobs to achieve what is sometimes characterised as the main goal – increasing women's participation in the workforce.

For example, like Denmark and the UK, the Netherlands has high levels of women working part-time. However, unlike Denmark and the UK, the Netherlands has a relatively low level of total female participation within the paid workforce.

The research suggests that this is because the labour market systems of member states will also have an influence on women's occupational segregation into low status jobs within feminised sectors.

It says that in some countries the opportunities for part-time working in higher level jobs seem to be greater and therefore the association of part-time work with low skill concentration is reduced.

Occupational Segregation and Part-Time Work: Some Evidence from the European Community. Jill Rubery and Collette Fagan, November 1992, Manchester School of Management, University of Manchester Institute of Science and Technology with the European Commission Network on the Situation of Women in the Labour Market.

Consumer tastes are becoming more daring

Drinks sector sees the birth of the Euro-palate

THE Euro-consumer is still a shadowy species, but one that is slowly gaining substance as national tastes converge, according to market researchers.

In the drinks sector, a few more people every year are converted from traditional, locally-produced spirits to international brands of whisky and cognac. Many soft drinks find increasing acceptance across frontiers.

Northern Europeans are drinking more wine; and southern Europeans are acquiring a thirst for beer. While the Germans, the continent's heaviest beer drinkers, maintained a steady annual consumption of 142 litres a head during the 1980s, Spanish consumption rose 36 per cent to 72 litres, and the Portuguese lifted their intake a staggering 68 per cent to 64 litres.

Throughout the decade, the British ale drinker continued to develop a taste for continental lager, bringing another note of harmony into the European beer market.

Britain has been much more receptive to foreign products since the late development of its lager market

At least one Dutch barman in Friesland no longer tries to make UK visitors feel at home by scraping the froth off a glass of Pils and jovially presenting them with "an English beer".

But the fact that Europe's beer drinkers now have more tastes in common does not mean that by the end of the decade everybody will be drinking the same few brands. *Perish the thought.*

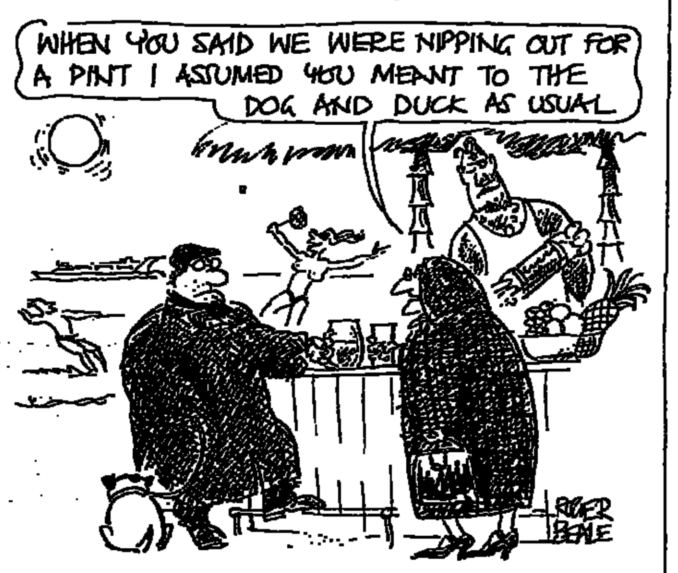
Lager dominates the market – but there is a huge variety of brands and, on the whole, each country still prefers its own.

Consumer loyalty to local brews is strongest in Germany, which accounts for more than a third of European beer consumption. The country supports 1,150 brewers and rather more breweries. The Reinheitsgebot purity laws, which required the use of only water, barley, hops and yeast in making beer, long proved a barrier to imports.

But even since the laws were rescinded in 1987, imports have risen by a mere 0.5 per cent, and still represent less than 2 per cent of consumption.

Few believe, however, that such a situation can survive for much longer; and Carlsberg of Denmark, and Grolsch of the Netherlands have recently acquired German brewers.

Britain has been much more receptive to foreign products since the late development of its lager market – with even Sol, a Mexican lager served with a wedge of lime in the bottle, in the repertoire. One in three glasses of lager drunk in the UK is a *continental* brand; and about the same amount is shared by Australian, US, Canadian and other overseas brands.



A range of beers: pan-European brands have been difficult to establish

It has been difficult to establish pan-European brands amid such diversity. Heineken, of the Netherlands, the most pan-European of brewers, controls only 9.6 per cent of the market, and the Heineken *brand* itself accounts for a mere 3.4 per cent.

Carlsberg, the Danish brewer, has an estimated 6 per cent market share, but sales of its eponymous brand account for little more than 2 per cent.

These two brewers, both *dominant in their own* countries, have achieved their pre-eminence in Europe through wholly-owned subsidiaries, acquisitions, joint ventures or licensing agreements in almost every EC state.

Thus Heineken owns Dreher in Italy, Murphy's in Ireland, Athenian in Greece, El Aguila in Spain, and Française de Brasserie in France, while its mainstream brand is brewed under licence in the UK by Whitbread.

Carlsberg owns Hannen in Germany, and has *stakes* in Poretti of Italy, Unicer of Portugal, and Cruz Campo of Spain. It is forming a joint venture with Allied-Lyons in the UK, and is brewed under licence in several other countries.

With such widespread distribution, and sold as part of portfolios of local products, Heineken and Carlsberg should continue to grow into true pan-European brands.

Further contenders for such status may emerge from the continuing consolidation of the industry – the growing presence of BSN, the French brewer in the countries of southern Europe, suggests its Kronenbourg brand is one possibility.

But during the 1990s, consumers seem likely to be more adventurous in their tastes, demanding a greater choice of quality beers *of all kinds.*

Brewers may find it more profitable to cater for strong niche markets than chase mainstream volume.

Such markets are already emerging – in the revival of *cask-conditioned* regional ales in the UK, in the rediscovery of wheat beers in Germany, and the growing popularity of Belgium's specialty beers seasoned with fruit or spices.

Consumers are relishing the flavours – the malt and hops of English ales or *the* coriander of Belgian white beer – after the blandness of so much lager.

Some products are acquiring the cachet of fine wines; and they should find an equally appreciative and permanent market.

Philip Rawstorne

World investors are keen to secure a foothold in the EC, says **Michael Cassell**

The attractions are still strong

WHATEVER the political and economic uncertainties currently enveloping the European Community, it remains the target for huge, inward flows of investment aimed at *securing a foothold in the* world's largest trading bloc.

For while the debate over Europe's future has acquired new and broader dimensions, the EC remains primarily a partnership of trading nations offering those operating within it access to a marketplace of unparallelled potential.

The scale of the market, the diversity of its customers, the prospect for continuing expansion and the promise of relative political and economic stability have combined as critical factors in helping to attract investment from around the globe.

With fears receding that a protectionist Europe will emerge in the wake of the single market – unless final failure to agree the Uruguay round of the General Agreement on Tariffs and Trade leads to global trade warfare – investors have continued to give high priority to raising their exposure to the European marketplace.

In 1991, estimates suggest that total inward investment into the EC countries reached $65bn, with the US and Japan topping the league of big spenders.

For the US, Europe has long been a main target for external investment, though the ever-present threat to its trading relationship with the community was forcefully underlined with its threat to impose penal tariffs on a range of EC products in the event of a Gatt *breakdown.*

For Japan, the political crisis over the future of the Maastricht treaty has created considerable alarm. The country's cumulative interest in the EC already amounts to more than $55bn. Although that is less *than half the level of investment* it has in the US, the European market is potentially as large.

Hopes for a balanced, mutually beneficial, political and trading relationship between *the EC and Japan manifested* themselves in the joint Hague declaration of 1991. But the continuing, huge trade imbalance in Japan's favour – $27bn in 1991 – and the obstacles to doing business in Japan itself ensure that tensions will continue.

Japan's approach is further complicated by considerable variations in the strength of its bilateral relations with individual EC states.

Some EC officials claim Japan still plays off member states against one another when it comes to inward investment decisions.

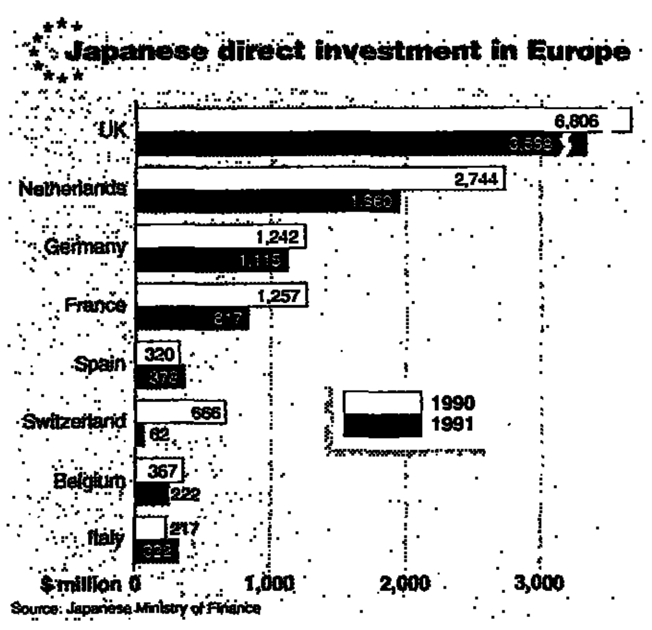
The UK has apparently maintained its position as the single largest benefactor of the inflow of investment from Japan and from most other non-EC nations. Only the US beats the UK performance as a recipient of overseas funds.

The UK continues to account for around one-third of all incoming EC investment. Its share reached a peak of nearly 40 per cent in 1990.

A high level of investment continues in traditional manufacturing as well as in high-tech business

Japan has almost twice as much investment in Britain as in other EC countries while the UK's share of US investment within the community amounts to more than the combined totals recorded by Germany, the Netherlands and France.

The debate over whether Britain's attractions are a reflection of its innate weaknesses or strengths remains as lively as ever.



Source: Japanese Ministry of Finance

While ministers portray its success as a ringing endorsement of its open, free market economy, without controls on currency movements or remittance of profits, critics paint a rather different picture.

The counter-argument suggests that Britain offers investors a relatively cheap base for operations, offering high workplace skills and a labour market unencumbered by many of the obligations set down in employment laws in force elsewhere in Europe.

Britain's isolation in refusing to sign the social chapter of the Maastricht treaty might well reinforce the image, although it may also serve to underline its attractions for some inward investors.

France is the next most popular location for inward investment – accounting for something approaching 20 per cent of the total – with Belgium next on 14 per cent.

The popularity of Germany as a target for inward funds is also rising, given the comparative strength of its economy and the potential for exploiting business opportunities in former east Germany.

Contrary to some expectations, incoming investment in Europe is not overwhelmingly concentrated in high-tech businesses, but continues also at a high level in traditional manufacturing activities.

The big question now, however, is whether the flow of corporate investment into Europe has peaked.

Figures indicate that the process has, in the short-term at least, slowed down dramatically. The 1991 total for inward investment fell by $20bn on the previous year.

The latest slow-down, almost certain to have been continued in 1992, is, in part, a reflection not only of the impact of recession in Europe but also of weak domestic conditions within the inward investing nations.

In addition, many businesses will by now have made their principal investments within the European market and are not maintaining budgets at the same level.

Nor does the recent disarray within EC member states over the next phases of European development – combined with the continuing threat that Denmark might yet provoke another crisis of confidence – provide the preferred backdrop for continuing inward investment.

There is also the question of how the community can best exploit the continuing, inward flow of investment funds. The EC recognises the economic imbalances which already exist within its boundaries but progress at evening them out has been painfully slow.

The Commission itself recently acknowledged that regional differences remained comparable with those which existed 20 years ago. The completion of the single market means that capital and labour will increasingly locate where the physical and economic environment is most attractive.

In spite of a doubling of the structural funds, the resources for promoting regional development remain small. The volumes of investment required to help promote broadly-based economic development are enormous but there is scope for encouraging new, inward investment to help redress the existing imbalances.

According to the Centre for Urban and Regional Development Studies at Newcastle University: "EC regional policy needs to be reformulated in such a way as to ensure that the huge amount of investment flows towards the less favoured regions and avoids the currently wasteful practice of national and regional bodies spending vast amounts competing for inward investment."

Single market checklist

1993 Jan 1: No border checks for goods as the frontier-controlled VAT and excise system is abolished, together with 60m tax forms

Government curbs on air fares lifted

Banks free to set up branches anywhere in the Community

Exchange controls ended, but Greece given extension

Later: Single market extended to six Efta states in second half of 1993

Passport checks for internal EC flights should end in December, but UK, Denmark and Ireland may resist

1994: Higher education diplomas recognised throughout EC

Open competition for all public authority contracts, including utilities

Insurance companies free to set up and sell policies across frontiers

1996: Stockbrokers get "single passport" to operate anywhere in EC

Banks able to deal on all EC stock exchanges except in Greece, Portugal and Spain

1997: Single VAT system applied to traders and consumers, if member-states agree to a permanent change

Airlines can fly any route within EC

1999: Duty-free sales end on internal flights and ferry crossings

2000: Free internal market in cars – deadline for removing all controls on Japanese imports

Edward Balls analyses the structure of Europe's unemployment

The wages of rigidity

THE LABOUR market is the Achilles heel of the European economy. High and persistent unemployment across the continent are the most direct, and most distressing, manifestation of Europe's labour deficiencies. But unemployment is just one product of the more general problem of inflexibility and immobility that threatens to hamper Europe's single market.

The OECD, in its latest economic outlook, calculates that total unemployment in OECD European countries will rise to 19.9m in the first quarter of this year . More than 80 per cent of Europe's unemployed are located in EC member countries. The EC unemployment rate is expected to be 10.7 per cent of the total workforce, up from 8.4 per cent in 1990. This quarter's EC rate compares with 7.4 per cent in the US and 2.3 per cent in Japan.

There is surprisingly little national variation in unemployment rates among the largest EC countries. Italy, at 11 per cent, had the highest unemployment rate of the four largest countries in 1992, followed by France with 10.3 per cent, the UK with 10.1 per cent and Germany with 7.6 per cent. But many of the southern European states have much higher unemployment rates with Spain's 18 per cent the highest.

The EC's high unemployment rate is, in part, a reflection of Europe's poor recent growth record. EC gross domestic product is expected to have risen by 1.1 per cent in 1992 compared with 1.8 per cent in both the US and Japan.

But even when growth does eventually return to Europe, the Community may remain hampered by high unemployment. EC unemployment rates have remained at persistently high levels for more than a decade. The average EC unemployment rate in the 1980s was 9.6 per cent of the workforce, up from 4.8 per cent in the period 1974-79. The US average was 7.2 per cent in the 1980s and 6.7 per cent in 1974-79.

Why does Europe have more unemployment than the US? One commonly cited reason is unemployment benefits. In the US, most men are disqualified from receiving any kind of welfare support after 26 weeks. In Europe, by contrast, unemployment benefits tend to be both more generous and open-ended.

The second reason is the relative rigidity of real wages in Europe compared with the US because of Europe's more regulated labour markets and more effective trade unions. The OECD calculates that the amount of unemployment needed to keep inflation from rising is much higher in Europe than in the US, Japan or Sweden. To reduce inflation by one percentage point, unemployment must rise by more than twice as much in EC countries as in OECD countries overall, and by four times more than in the US.

Yet, these unemployment rates tell merely part of the unemployment story. They only include people who are available and looking for work. They exclude the "economically inactive": people who have no jobs but have given up searching for employment. In fact, there has been a sharp rise in male inactivity across the developed world over the past decade, particularly among older and younger men and the unskilled.

Non-employment rates, the sum of the unemployed and the "inactive" as a percentage of the population, are much more constant across countries than unemployment rates. The US, Canada and Australia have non-employment rates similar to those in Europe. Only Japan and Sweden have low non-employment rates by OECD standards.

In continental Europe, this rise was largely reflected in the unemployment statistics. Elsewhere – the UK, Australia, Canada and Sweden – the rise in activity was at least as important as the rise in unemployment.

The conventional view that Europe has a more serious problem of joblessness than the US is misleading. The fact that the US has less generous unemployment benefits and more flexible real wages does not mean that the US has less non-employment. Instead, they explain why much of this US non-employment fails to show up in the jobless statistics.

In the US, where wages are very flexible, the real wages of the lowest-paid 10 per cent of workers have fallen by 30 per cent since 1970. Very low relative wages for unskilled jobs, and the absence of income support for single men, help to explain the rise in crime among less educated men.

In continental Europe, by contrast, the relative rigidity of wages, and high unemployment benefits has prevented unskilled real wages from falling but employers have been unwilling to hire the unskilled at those wages.

The downside of America's less regulated labour market is more non-employment outside the legal economy. But the advantage is a much more impressive record of employment growth, particularly for women and young people, albeit in lower paid and often part-time occupations.

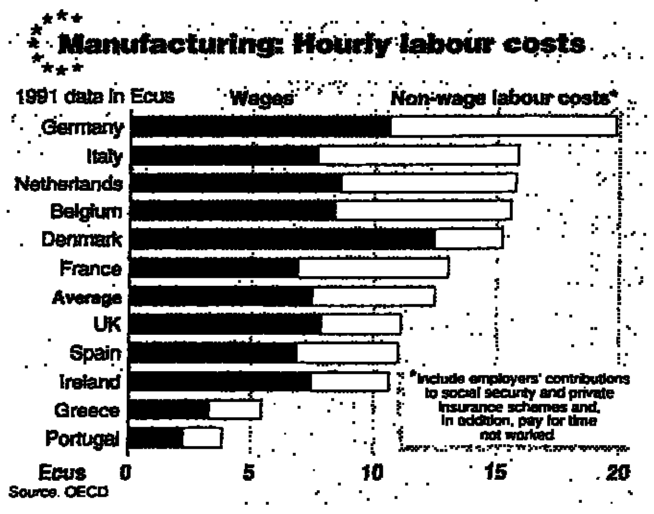
US total employment grew by an average 2.6 per cent a year between 1983 and 1989, compared with just 1.0 per cent for the EC. Employment in Britain's deregulated labour market grew by an average 2.0 per cent a year over the same period. Both the UK and US have higher female participation rates and lower women and youth unemployment rates then continental Europe.

But the US has one additional and unambiguous advantage – the mobility of its population. The pattern of US employment growth is not equal across states but the US does not have persistent high or low unemployment regions. Regional problems caused by unequal rates of economic growth are offset by migration.

Research by Mr Larry Katz and Mr Olivier Blanchard, published last year by the Brookings Institution, shows that if employment in a particular state falls by 1,000 in any year, then, on average, 300 workers stay unemployed, fifty drop out of the labour force and 650 leave the state. Eventually, out-migration erases the effect on unemployment and participation rates.

Migration does not play this equilibrating role to anything like the same extent in European countries, let alone across national borders. In 1987, 2.8 per cent of the US population changed their state of residence compared to 1.1 per cent of Germans who changed their region of residence, 1.3 per cent in France and 1.1 per cent in the UK.

The European single market should encourage the creation of new jobs in the Community but the geographic distribution of these jobs is unlikely to be evenly spread. The inflow of migrants from eastern Europe and north Africa may improve the currently low levels of mobility of EC workers. But, for now, the relative immobility of the EC workforce remains an important barrier to economic integration.



Pledges to workers have mixed success, says **David Goodhart**

Slow growth limits benefits

THE "social dimension" of the European Community was relaunched by Mr Jacques Delors in 1989 to win the support of organised labour for greater economic integration and to address the fear that labour as a whole could lose out from the free market drive of the single market. It has been remarkably successful in achieving the first goal, rather less so in achieving the second.

The 1989 social action programme contained a series of measures, from improving health and safety, establishing minimum rights for pregnant women, young people and part-time workers, to imposing EC-wide limits on the working week. But thanks to slower growth throughout the EC, and successful blocking by the UK government, few of the important measures have so far become directives.

If the Maastricht treaty is passed, its "social chapter", which Britain has opted-out of, will in theory make it easier to push through more social and employment legislation by majority vote. But that also looks unlikely at present.

Most member states are reluctant to adopt any policies that might reduce competitiveness or provide succour to Britain, regarded as the "Hong-Kong of Europe". And even within the European Commission's social affairs Directorate-General 5 the leading strategists of the social dimension privately accept that a less ambitious approach to legislation is required.

What is the case for the social dimension? Some supporters, especially in the richer EC countries, have argued that the harmonisation of minimum rights at work across the Community is required to prevent "social dumping". That means capital flowing to areas where labour is least protected, triggering downward pressure on standards in other countries.

There is little evidence that an increase in social dumping is accompanying the arrival of the single market. That may be because the low wage economies, such as Spain, Portugal and Greece, have quite strictly regulated labour markets, making them unpopular with big business. It may also be because unit labour costs are remarkably similar all over the EC, in other words the high wage countries justify higher pay scales with high productivity while low wage countries have low productivity to match.

There has, however, been a big increase in cross-border takeover activity by EC-based multinationals, inspiring the draft directive on European works councils, designed to give employees an EC-wide voice in corporate affairs.

But apart from a few highly specialised groups, such as airline pilots, there is little sign that EC-wide collective bargaining or an EC labour market is emerging. Only 2m EC nationals work permanently in another EC country and the number has actually declined in the past 10 years.

Yet there is a broader, more "political", case for the social dimension as a counter-balance to the forces unleashed by the single market. Mr Robert Lindley, of Warwick University, summarises it thus:

"While capital is more mobile than labour, financial capital is more mobile than industrial capital. Combine the rigours of the single market with those of free capital movement and there arises a situation in which financial markets have apparently been handed much greater power to impose their judgments of performances and priorities upon the workings of the other constituents of the EC economy."

The measures outlined in the social action programme are an attempt to ensure that the judgments of one of those other constituents – labour – do not go completely unheard. But by stressing harmonisation against de-regulation and EC-wide rules against subsidiarity the architects of the social dimension have risked trespassing on an area of economic life strongly coloured by national differences.

There are 12 different systems of industrial relations in the EC and while there are patterns of similarity which link some of them, there are also big differences in the role of the law, the power of unions, and the structure of working life.

Southern member states, for example, tend to have low female participation and little part-time work. Spain and France have weak unions but strong labour laws. Most of the northern European states have strong labour laws and institutionalised "social partnership" collaboration between organised labour and capital.

The Christian Democrat/Social Democrat consensus that prevails in most continental European countries invariably gives labour a powerful institutional voice even where collective bargaining is weak.

Britain, with its laissez-faire regulatory framework but historically strong (although now weakened) unions, is out on a limb. And its liberal hire and fire rules, widespread use of "atypical" work patterns, and long working hours, make it the most affected by the regulatory regime the Commission has been trying to impose.

Although the Commission denies it is trying to impose a particular model of industrial relations on the EC it clearly leans towards the Germanic model with its strong labour laws and legally-backed voice for employees.

Whether, in the longer run, the Commission succeeds in establishing a "European model" remains to be seen. There is some evidence that the "Germanic" model, already heavily plagiarised by Holland and Belgium, is spreading into France, but otherwise there has been little spontaneous convergence. Indeed, if there has been a common trend over the past decade it is towards de-regulation and a weakening of social partnership, although that has gone further in the UK than elsewhere.

Looking ahead, European labour faces a tough time. European monetary integration will impose a single inflation and interest rate, and rule out devaluation, with the result that the strain of economic adjustment will fall on wages and employment in the weaker countries. And without co-ordinated wage increases across Europe those countries with high unit labour cost increases, such as Britain and Italy, will see lost competitiveness flow directly into job losses.

The social dimension affords little protection against the potentially dramatic effects of monetary integration. But it should not be written off completely and, interestingly, it survived virtually unscathed from the Edinburgh summit review of subsidiarity. Currently, in the UK, the government's drive to contract out central and local government services has been thrown into confusion by one of the oldest pieces of EC employment legislation, known as the acquired rights directive.

The social dimension is undeniably suffering a cyclical down-turn, as it has done before, but it has also established itself as a fact of life across large areas of working life in the EC.

Coal at Calais docks: rising imports undermine European jobs (picture: Colin Beere)

EC Commission line-up 1993-94

Corporate strategy: long range planning from Japan

How foresight saved money

FOR TOSHIBA, the Japanese electronics group, the removal of most of Western Europe's internal tariff barriers on January 1 was just the latest stage in a long and unhurried series of changes in one of its biggest markets.

Almost a decade ago, the company established a task force in Tokyo to study changes taking place in the European Community. Six senior managers from departments such as corporate planning, finance and accounts and personnel spent a year studying the issue.

They filed a many-volumed report to top management in May 1985 which recommended, among other things, the creation of a regional co-ordination centre in Europe.

In October 1989, a small European co-ordinating office was established in central London. Mr Takeo Fujii, the leader of the team which wrote the 1985 report, became its head.

A branch office was soon opened in Brussels. It has just three staff, one Japanese, one local recruit, picked for his knowledge of the European Commission and its directives, and a secretary.

One reason for the gentle pace and limited resources given to the project was that Toshiba was growing quickly in Europe's fragmented markets in any case.

Individual operating divisions had already set up shop in Europe. The first manufacturing centre, for televisions in Plymouth, Devon, was established in the 1970s. Manufacturing is now spread across Europe, with semiconductors and VCRs made in Germany and microwave ovens and photocopiers in France.

TOSHIBA

There are eight divisions, including finance and basic research, that operate almost entirely independently. Their only point of common contact in Europe is Mr Fujii's London office.

Those eight divisions employ more than 5,000 people in 11 European countries. Almost half work at manufacturing subsidiaries and Toshiba Corporation shares are listed on nine European bourses. Sales in Europe are worth Y65bn with Germany and the UK accounting for almost half the total, France taking 17 per cent and Italy 11 per cent.

Distribution is strongly based on national borders. Almost all the output is sent to distribution centres in individual countries before going to dealers and shops. The output of office automation equipment, for example, is co-ordinated from Düsseldorf, but products are routed via warehouses in each country.

It is a system that is likely to continue for some time, says Mr Fujii. Markets still have national characteristics, especially for products that are retailed.

France has its own technical standards for televisions. Germany has ultra-strict rules on the design of microwave ovens, and its consumers have, until very recently, refused to buy flat screen televisions, preferring the older, more rounded screens. Toshiba even had to buy its picture tubes for the German market from European manufacturers Thomson and Phillips.

There are exceptions. Some television picture tubes are bought by other manufacturers. Since there are a small number of industrial buyers which each order a lot of units, the tubes are shipped directly to them from plants in the US, Japan or Thailand.

Mr Fujii says there will be few changes in procedures in the short term. The company will have to deal with new forms of paperwork, dealing with sales tax and import/export statistics, and is having to set up new systems to cope.

"Once the computers have been set up, I hope costs will be lower," he says

In the longer term, some parts of distribution may be centralised. The company is considering cities such as Hanover or Barcelona for the establishment of a "distribution logistics" centre, especially to deal with products that are imported from outside Europe.

Eventually, it should be possible to distribute directly from, say, Germany, to retailers in Italy or Spain. But Mr Fujii does not believe this will happen soon in spite of a widespread belief among colleagues in Japan that 1993 has ushered in a perfect single market in Europe.

"Most Japanese may dream of a unified [European] market, but personally I see only small changes," he says. "For the time being, country-by-country structures will remain. Different markets have different needs. We are not in a hurry."

Daniel Green

Jonathan S Schwarz traces the uneven progress towards a uniform taxation system

There's a long, long trail awinding

HARMONISATION of tax systems in the European Community has been on the political agenda since the EC's inception.

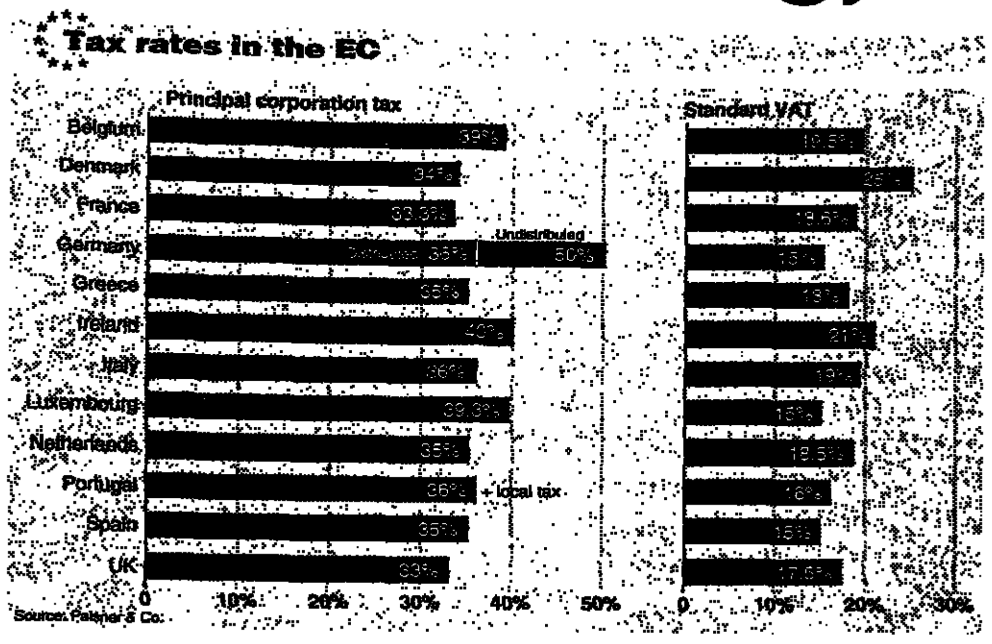
Fiscal barriers have been identified as an important inhibition to intra-community trade and investment. However, since revenue-raising by Governments is regarded as at the heart of sovereignty, the development of a European tax system has been a long and tortuous process.

When the Single European Act was passed in 1987, it was recognised that taxation, unlike other targets for harmonisation, was so close to the states' national interests that majority voting did not apply. As a result, the unanimous approval of member states is required to introduce new EC tax law.

Nevertheless, a unified tax system is now discernible, particularly in the indirect tax field, with new items being added to the agenda all the time.

The longest standing element of European Community tax law is the common customs duty regime. A single Community customs law sets rules for the import of goods into the community and provides for their valuation. European Community regulation specifies the valuation of goods for customs purposes.

Although implementation and collection of customs duty is handled by member states, collaboration is ensured by the customs co-operation council. Once goods have crossed the customs frontiers around the community, they enter into free circulation and may be traded freely without further customs duty. As part of the single market, agreements have now also been reached on the harmonisation of excise duties relating to tobacco, alcohol and fuel oils.



Value added tax(VAT) is perhaps the real European Community tax. It was introduced into community law by the first VAT directive in 1967 and all states were required to adopt a common system by 1972.

Not only is VAT established under community law which all members are required to implement, but because a portion of the tax collected is paid to the community directly, and forms part of its own resources, it is also a European tax.

The introduction of the interim VAT regime on January 1, 1993 was a major step towards disregarding intra-community boundaries in determining how the supply of goods should be taxed.

Although the method adopted is complex, it is designed to move towards a system where transactions between member states will be taxed in the same way as transactions within a single member state.

While the adoption of a 15 *per cent minimum standard* rate of VAT has required only Germany, Luxembourg and Spain to increase their rates, psychologically it has reinforced the idea of VAT as a common European tax.

Furthermore, the European Court of Justice has shown little tolerance for member states which attempt to impose turnover taxes that do not comply with community law, or fail to implement the tax directives properly. Virtually no member state has escaped judgment on this.

Direct taxation has not proceeded at the same rate as the indirect tax system. Although proposals for corporate tax har*monisation have been around* for more than two decades, it is only at the beginning of 1992 that two corporate tax directives entered into effect.

The parent and subsidiary companies directive aims at eliminating the withholding of taxes on payments across member states' borders and eliminating double taxation on distributions paid by subsidiaries to their parent companies in other member states.

The second directive is designed to facilitate tax free cross-border corporate mergers, acquisitions, divisions and share-for-share exchanges. Both directives have, however, been criticised as being incomplete and somewhat unclear as to their precise scope and meaning.

Member states have also been slow to introduce implementing legislation, and the manner in which the directives have been implemented varies noticeably from one member state to another. As a result, the term "harmonisation" is perhaps inappropriate. The Treaty of Rome talks of approximation of laws and this is a more realistic description of the manner in which these directives actually take effect.

Thus while the two directives may present a picture of a common system, in practice wide variations mean that the rules of member states differ significantly and only have some common features.

In the case of the mergers directive, implementation is further inhibited by the fact that in several member states, corporate law has not kept pace with tax developments, and therefore transactions which are contemplated under the directives cannot be implemented under existing corporate law. Other difficulties arise because the directive only covers corporation taxes, whereas in practice such transactions are often affected by a variety of other taxes notably stamp duties, registration and transfer taxes.

In addition to the two corporation tax directives, a treaty was signed between all member states in an attempt to harmonise the rules relating to inter-company transfer pricing. The arbitration treaty provides for a common standard of measuring arm's length prices, as well as for an arbitration mechanism in the event of differences between the treatment of transfer pricing adjustments between the member states.

While arbitration has been advocated as a method of resolving such difficulty by *many practitioners, the treaty* has yet to be ratified by all member states. Even when it does enter into effect, it has a limited initial life of six years and many doubt whether this is sufficient time to test the system thoroughly.

While success in achieving a *unified system in the direct tax* field has been limited, in practice there has been convergence between European corporate tax systems in a number of respects. The first and most obvious is an alignment of mainstream corporation tax rates.

Most countries have tax rates between 33 and 40 per cent. In addition, most member states, at least during the 1980s, *attempted to broaden* their tax bases and reduce rates. A variety of incentives, such as investment tax credits *and accelerated depreciation*, have been eliminated generally.

While the taxation commissioner, Mrs Christiane Scrivener, has approved this process some countries, such as Belgium, have been concerned that excessive tax competition between states would cause undue pressure to be brought *on the governments*. This has not prevented Belgium along with Luxembourg from entering into competition with the Netherlands to produce the ideal European holding company location.

The Ruding committee appointed by the Commission to consider the future of direct tax harmonisation in the EC produced a detailed report containing ambitious proposals for a European tax system whose introduction was to be geared to the stages of economic and monetary union contemplated by the Maastricht Treaty.

Uncertainty about Maastricht and turmoil in the currency markets, which has thrown into question the very existence of the European exchange rate mechanism, has sharply halted progress towards economic and monetary union.

The Commission has, however, proposed a more modest programme of measures designed to facilitate cross-bor*der transactions within* the community, including extending the current parent subsidiary directive to all forms of company and to payments of interests and royalties. A proposal has also been made to enable European groups to use cross-border losses. Mrs Scrivener believes that such measures would go some way towards eliminating tax disadvantages of cross-border investment and trade. With the Commission under fire for its alleged tendencies towards centralisation, she is reluctant *to push member states too far.*

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Corporate strategy: a Franco-Swedish combine hits the road

Classic industrial response to the open market place

THE nearly three-year-old *alliance between Renault and* Volvo, the French and Swedish car and truck makers, is a classic industrial response to the competitive challenges and opportunities thrown up by the single market.

When the pair exchanged minority stakes in 1990, they cited as reasons the growing competition in their industry, the costs of stringent environmental rules and the increase in investment needed to keep pace with technology.

The purpose has been to share these burdens by spreading costs and ultimately to work towards a full merger, which both partners would dearly like to achieve.

A merger looked possible early last year but was subsequently shelved due to changes in the French government's attitude.

Losses at Volvo provoked the former government of Mrs *Edith Cresson to have second* thoughts about the deal. The present government, under Mr Pierre Bérégovoy, has no such doubts, but it does not have the opportunity to pass the legislation needed to pave the way for a merger because of the closeness of the legislative election in March.

RENAULT **VOLVO**

If the partnership has been a political balancing act, it has also required some fine judgment in business terms. Renault and Volvo have had to strike a delicate balance between their pledge to act as if they were one company, and the vital need to keep their brand identities separate, so as not to steal shares of a declining market from each other.

This explains why the alliance has made more progress *in their car businesses, where* Renault and Volvo occupy clearly different markets, than in trucks, where they compete.

Like the single market itself, the Renault-Volvo alliance has advanced gradually in small steps, which look uninspiring on their own but add up to much progress. Renault executives say the results have been far more encouraging than they expected.

The first step, early in 1990 after the agreement to exchange shareholdings, was the creation of a joint car and truck *research centre in* France. This is *studying joint* components like gearboxes and rear axles for trucks and common stamped steel sheets for truck cabs. In cars, the centre is working on areas like *safety, new materials and* alternative fuels.

Another early step was the establishment of joint component purchasing committees for both cars and trucks, which have since evolved into formal joint ventures last June, to represent both companies to their main suppliers.

This could turn out to be the biggest cost saver in the alliance, since the partners' car making divisions already buy 15 per cent of components from common suppliers and components represent two-thirds of Renault's manufacturing costs. In trucks, the partners say 60 per cent of their suppliers are shared. *Volvo estimates that, as a* result, its group will save SKr800m annually in the next two to five years, though Renault has not given a precise estimate.

The partners have also agreed to exchange some car engines, saving Renault an estimated FFr1bn on its development bill to date. Volvo's Dutch plant is to take a Renault diesel engine and economy two-litre petrol driven unit, while Renault is to take a Volvo two-litre 16-valve petrol engine for a future model. There are no plans to swap truck engines because they feel that the engine is a part of a truck's marketing identity.

There will, however, be some joint products in specific areas, always under the proviso that they will keep their marques separate. A jointly developed range of top of the line executive cars, for example, is planned for sale in Europe by the year 2000.

They will use *common platforms*, engines and gearboxes, but have different body styles and be sold as separate marques through the partners' respective dealerships.

There are no such plans for a common truck, though the pair are jointly developing a low floor commuter bus, due to come on to the market this year or next.

Again, it will be sold under *different names, either as* Heuliez, the French bus maker controlled by Renault Véhicules Industriels and Volvo Bus, or as Volvo alone.

On marketing, the pair partially merged their French car and light commercial vehicles sales divisions just over a year ago, but have no plans to do so in trucks.

Overall, the general pattern at Renault and Volvo has been *to combine forces where there* are clear common interests, but to stay apart where their interests might clash. It is a difficult balance to get right, just as much between companies as between nations, as the recent history of the European Community itself shows.

William Dawkins

Andrew Hill on the obstacles to a single law for companies

Divided we still stand

THE European Company Statute (ECS) is nearly a quar*ter of a century old, but it has* not yet been born.

The proposal, dreamed up by the European Commission in 1970, *was supposed to provide a* single corporate structure for multinationals in the EC. Instead of having to find their way around different national systems and set up a network of PLCs, SAs, NVs, AGs and SpAs, multinationals would be able to establish a single SE – "Societas Europaea" – under Community law. Lawyers' fees would be slashed, administrative nightmares banished and large European companies could get on with making money.

But what seemed a smart idea – or just plain common sense – has repeatedly stumbled on the very national differences it hoped to eliminate. *Twice revived since 1970*, ECS was even added to the fast-track single market programme only to suffer the indignity of being overtaken by newly-minted directives in other fields. As 1993 begins, and despite member states' efforts over the past 18 months, the ECS is still under negotiation.

The ECS would be voluntary, but the principal obstacle to agreement has been the proposal's detailed requirements for employee participation in the management of SEs. Britain is *particularly opposed* to such obligations, while Germany, which already has strong rules on worker participation, is in favour.

"In theory, people are interested in the idea of incorporating as a European company and that's an attractive prospect," comments one British official. "But when they see what's on the table they are less impressed."

At the most recent ministerial discussion of the ECS – under British chairmanship last November – it was agreed that any company seeking to register would have initial subscribed capital of Ecu120,000, and would conform to the definition of public limited companies in the member state of registration. But the ministers made no headway on the question of worker participation and will have to return to the ECS during the next six months, under the Danish presidency.

Yet the plight of the European Company Statute is as nothing compared to the fate of its company law siblings in the original 1985 single market programme. Indeed, this is the principal area where the ambitions of Lord Cockfield, then internal market commissioner, have not been realised.

Early on, member states adopted measures which allow loose collaboration between companies, under the clumsy-sounding title of a European Economic Interest Grouping (EEIG). This initiative has enjoyed a modicum of success since it came into force in July 1989 – some 350 EEIGs have been created – but, as the Commission itself makes clear, "it is an instrument for economic co-operation, not for integration".

Member states have also adopted measures on disclo*sure requirements for company* branches set up in another Community country, a directive enabling sole individuals to operate as a private limited company, and amendments to earlier directives on the content, auditing and publication of accounts.

But there has been stalemate in the principal areas for harmonisation of company law:

Attempts to forge a Europe-wide company law remain stalemated after 25 years, and this remains the main area in which Lord Cockfield's Single Market dreams have not been realised

- **Fifth company law directive.** *This is a measure which* goes back nearly as far as the ECS, and covers roughly the same ground. The difference is that it would establish a compulsory European statute for virtually all public limited companies. As a result, it has been attacked by the same member states which oppose the ECS. For months it has been regarded as a "low priority", even by Brussels, which *has chosen to concentrate on* the ECS;
- **Tenth directive on cross-border mergers.** Another low *priority for the Commission*, this measure has also fallen foul of British objections to worker participation because it allows member states to prevent cross-border exchanges of shares if employees are deprived of rights of representation as a result of the deal.
- **Thirteenth directive on takeover bids.** This directive is backed, among others, by lib*eral economists, who believe* there will be no genuine free movement of capital in the Community until corporate predators can hunt across borders following a single EC takeover code. But its potentially far-reaching proposals for a single threshold – above which bids would have to be launched – and harmonised rules on the content and publication of offer documents may never see the light of day. At the Edinburgh summit last month, EC leaders agreed that the controversial measure went into "excessive detail".

If it survives at all, the takeover directive will be replaced by a list of "general principles" which would then be fleshed out by individual member states.

But in Brussels and beyond, there are few tears being shed about the apparent failure of the single market company law programme. The main reason for this is that neither Commis*sion nor member states any* longer regard the measures as essential to the operation of the single market.

For one thing, much of the nitty-gritty of EC corporate law had already been adopted by the time the single market programme was launched. The series of unnamed company law directives are numbered one to 13. Some of those measures have sunk without trace, but others have been operating since the 1970s.

The first company law directive – which lays out harmonised publication requirements for the incorporation and winding-up of companies – was adopted as early as 1968. In addition, other single market measures, aimed, for example, at eliminating double taxation for companies with subsidiaries in other EC countries, have helped ease the burden for genuinely European corporations.

More importantly, much of the corporate restructuring and economic boom predicted by advocates of the single market has already happened – largely without the aid of a harmonised European company law and well ahead of the 1993 deadline.

As a recent upbeat Commission assessment of the programme points out, mergers and acquisitions involving companies from different EC countries increased threefold between 1984 and 1989 – while the value of such deals rose by 700 per cent.

"All the available evidence points to one inescapable conclusion – EC business has moved swiftly to make the most of these new possibilities," says the report.

There is a third reason why *proposals to harmonise* company law now appear to be merely the icing on the single market cake, and therefore dispensable: the current recession has taken the edge off corporate deal-makers' appetites, reducing the pressure for a single European company statute, or a single takeover code. But assuming that recession lifts and the single market takes off, the ECS may yet get the chance to prove its worth.

THE EUROPEAN SINGLE MARKET 12

Retail banks prefer to stay in their own national High Streets, writes **Robert Peston**

A non-migratory species

ANYONE walking down the high street of a provincial European town is unlikely to encounter a foreign bank.

In Margate's high street, there are branches of Midland, Lloyds, National Westminster and Barclays. Across the channel in Dieppe, Crédit Lyonnais, Crédit Agricole and Banque Nationale de Paris are to be found.

But the French banks have not migrated en masse to the UK nor have the British ones to France.

This may seem odd, given that banking is regarded as one of the more international industries. Indeed, the provision of banking services to big companies became a transnational business long before the European Community single market programme began to take shape.

However, retail banking – providing services to individuals and small companies – is still on the whole a domestic business. A range of cultural, tax and regulatory obstacles have combined to prevent the creation of a single market in retail banking products.

A typical example of a barrier to international competition was encountered recently by the UK bank Barclays in France. In the autumn, it tried to get around a French government ban on interest-bearing current accounts by launching a new product which combined a non-interest paying current account with an automatic sweep mechanism to shift a customer's surplus funds into a money market account.

There was uproar from French banks, which were concerned that their profitability would be squeezed if they responded by offering similar products. However, the French finance minister, Mr Michel Sapin, came to their rescue in mid October by announcing a prohibition on automatic sweep mechanisms.

So Barclays was deprived of the ability to market a product widely available in the rest of Europe – to the possible detriment of French consumers.

This incident illustrates the severe limits of the single market programme to encourage genuine international competition in retail banking. The various European Community banking directives which come into effect on January 1 will do nothing to remove such barriers to competition. They relate mainly to the levels of capital which EC banks must have to continue in business (The Own Funds and Solvency Ratio directives) and the way in which banks are supervised (the Second Consolidated Supervision Directive and the Second Banking Directive).

The Second Banking Directive is the most important new EC banking legislation. It creates a "passport" for EC banks, which allows any bank authorised to do business in an EC country to set up branches in another EC country, without the need to get the permission of the supervisor in that other country.

In theory, therefore, it reduces the costs and complications for EC-based banks of expanding within the EC. An example of a cost-saving move which some banks are contemplating as a result of the directive is to convert various subsidiaries scattered throughout Europe into branches. This would release capital held by each of the subsidiaries for use by the parent bank.

The directive will have more significant ramifications for bank supervisors. The Bank of England will for example spend far less time monitoring the financial affairs of branches of foreign EC banks. The Bank's supervisory department will continue to take an interest in the liquidity of such a branch, but responsibility for monitoring its financial health in a more detailed way will rest with the parent bank's domestic supervisor.

Because there remain significant obstacles to success in transnational retail banking within the EC, no bank is currently engaged in developing a Europe-wide network of branches.

New EC rules allow any authorised bank to open branches in another EC country without the need for local permission

Though a number of banks, such as Barclays, National Westminster, Crédit Lyonnais and Deutsche, have retail networks in different countries, they have typically managed each country's network as an autonomous business – with its own local brand name, financial system and management.

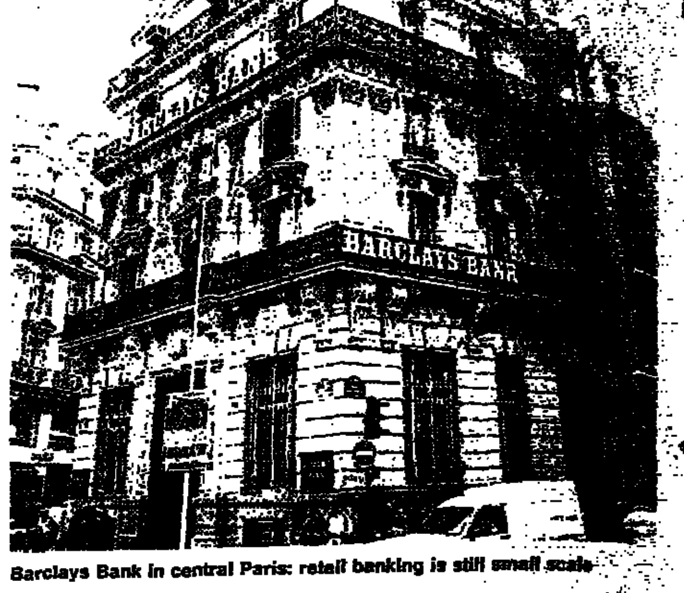
Only one bank has attempted to use its own brand name, system and products in branches scattered throughout several European countries. Paradoxically this bank is not European, but is America's Citibank.

The record of Citibank's European operations has been patchy. For the time being, therefore, European banks may use computers rather than expensive branches to deliver services across frontiers within the EC.

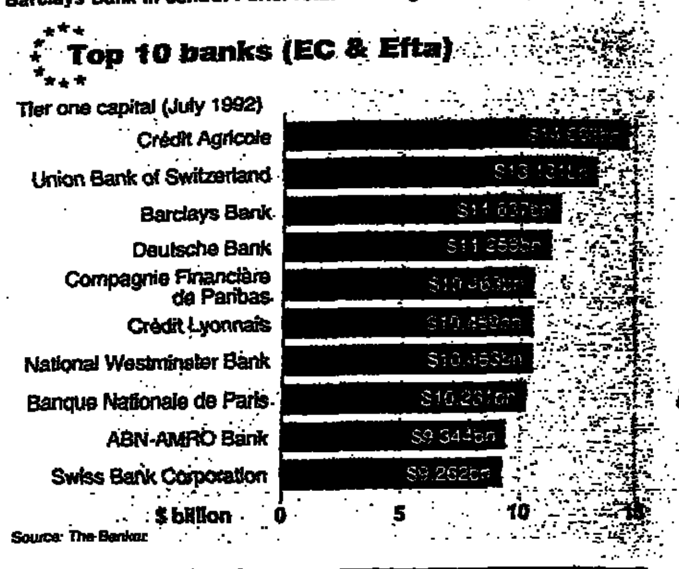
The way forward may have been shown by Royal Bank of Scotland, which has developed an electronic system, IBOS, for linking its branches with those of Crédit Commercial de France, Spain's Banco Santander and Banco de Comercio e Industria in Portugal.

The idea is that any customer of one of these banks, whether a company or individual, can have access to a full range of banking services even if he or she is travelling abroad within Europe.

Although RBS's plan for EC banking may not be Napoleonic in its ambition, it has the virtue that the costs of IBOS are modest – which is reassuring given the chequered history of most banks' ventures outside their home territories.



Barclays Bank in central Paris: retail banking is still small scale



Corporate strategy: a Franco-British bid for a place in the power game

Realignment in a world market

AT FIRST glance, it seems surprising that the move towards a single market was not a large factor in the creation in June, 1989, of GEC Alsthom, one of Europe's big three power engineering and transportation equipment groups.

The formation of the company from the power and transportation product businesses of the UK's GEC and what was then CGE of France owed more to developments in the world markets for these products, the need to be big enough to continue financing product development and compete internationally, and the requirement to reduce manufacturing overcapacity.

But the company recognised that Europe was to be its home market, even if the single market was not predominant in the decision to merge. About 60 per cent of sales are to countries within the EC, and GEC Alsthom expects the figure to stay between 50 and 60 per cent in the next few years.

GEC Alsthom's organisation – a Dutch holding company and national companies – was driven by the existing legal and fiscal regimes rather than any potential implications of a single market. But the company's industrial strategy was to become as competitive as possible by the development of areas of excellence without regard to geographic location, through a series of multinational product-driven divisions.

A clear example of this is in steam turbines and generators, where GEC Alsthom has concentrated on four specialist units to get the benefit of R&D rationalisation and volume manufacture, and to maximise the use of fixed assets. "The consequence of this," it says, "is that we only have a European product and no longer have an exclusive British or French turbine generator."

From its earliest days, GEC Alsthom was also keen to grow its European base by expanding outside its two home countries. In particular,it has made acquisitions in Germany (including two boiler makers in eastern Germany), in the Spanish rail transport industry, and in Italy, Belgium and Switzerland.

Three years on, the company has no reason to change its structure. "We always thought that, even with the emergence of the Single Market, a strong local market close to the customers would be a plus and it still proves to be correct. Beyond that our choice in running a company through a series of multinational product-driven divisions has proved a very sensible decision in the light of the Single Market."

GEC ALSTHOM

One of the advantages for GEC Alsthom in taking this approach is in dealings with a single market that varies from product to product in its "singleness". Assuming that the EC continues to exist in something like its present form, the company suspects a "substantial implementation" of a single market by the end of the century.

In the meantime the company has to deal with sectors such as the rail industry, where national standards, operating practices and the dominance of a single customer has perpetuated a system where suppliers and customers have worked together to develop products for domestic markets.

But similar relationships in the power industry are now being weakened, at least in the UK where the power industry has been privatised, and elsewhere in Europe with the emergence of build-and-operate private sector power stations.

The company has no doubt that, as a European company with only about 20 per cent of its capacity outside the EC, it is much better in competitive terms to be within the single market than trying to penetrate from outside.

That presence could become more important for large engineering companies such as GEC Alsthom in view of the EC's new rules for opening up public procurement contracts to competitive bidding. These will continue the process of loosening the close ties between suppliers and public customers in some European markets.

Looking back on the past three years, GEC Alsthom says it has learnt from the experience of operating in the EC's different domestic markets, and has been able to increase the amount of inter-country activities on particular projects. "Such lessons as we have learnt as the single market approaches have been learnt because the people who make up the management of GEC Alsthom have succeeded in fusing together their individual experience as Britons, Frenchmen, Germans, Spaniards, Belgians, or other nationals."

Andrew Baxter